A personal invitation to the 2017 Bestmed Conference and Annual General Meeting

2016

bestMed

personally yours

Invitation

You are personally invited to attend Bestmed's 53rd Annual General Meeting

During our 53 years of operation, we have again realised that virtually everything we do in life is measured in numbers. Our age, our anniversaries, our personal best times, our weight, calorie intake, exam marks, and so much more.

Naturally, Bestmed measures itself on its numbers, but unlike other medical schemes, because we're self-administered and run by our members, for our members, we have a vested interest in doing our personal best for every one of our 200 512 beneficiaries.

We believe that even though numbers are important, it's what's behind them that really matters.

Date Friday 2 June 2017
Time Conference: 08:00 (Registration)
8:45 - 11:30
AGM: 11:30-13:00
Lunch is served at 13:00
Venue The Capital Hotel
194 Bancor Avenue
Menlyn Maine
Pretoria
RSVP Refilwe Moloisane on or before 19 May 2017.
E-mail bestmed-agm@bestmed.co.za.

As you page through this report, we're sure you'll agree that once again, our numbers, as well as our Scheme, are extremely healthy.

2718 bouncing babies born to delighted Bestmed moms

Index

Programme ... 06
Directions to venue ... 07
Agenda for the 53rd AGM ... 08
Minutes of the 2016 AGM ... 10
Chairperson's Report ... 28
Highlights of the 2016 Financial Statements ... 35
Statement of Financial Position ... 36
Statement of Comprehensive Income ... 37
Statement of Changes in Members' Funds and Reserves ... 38
Solvency Ratio ... 39
Operational Statistics per benefit operation ... 40
Operational Statistics for the Scheme ... 42
Personal Medical Savings Account Trust Monies ... 42
Non-compliance with the Medical Schemes Act ... 43
Governance in Terms of the Medical Schemes Act ... 45

INDIVIDUALLY TAILORED PLANS • 13 • INDIVIDUALLY TAILORED PLANS •

Programme

53rd Conference and Annual General Meeting

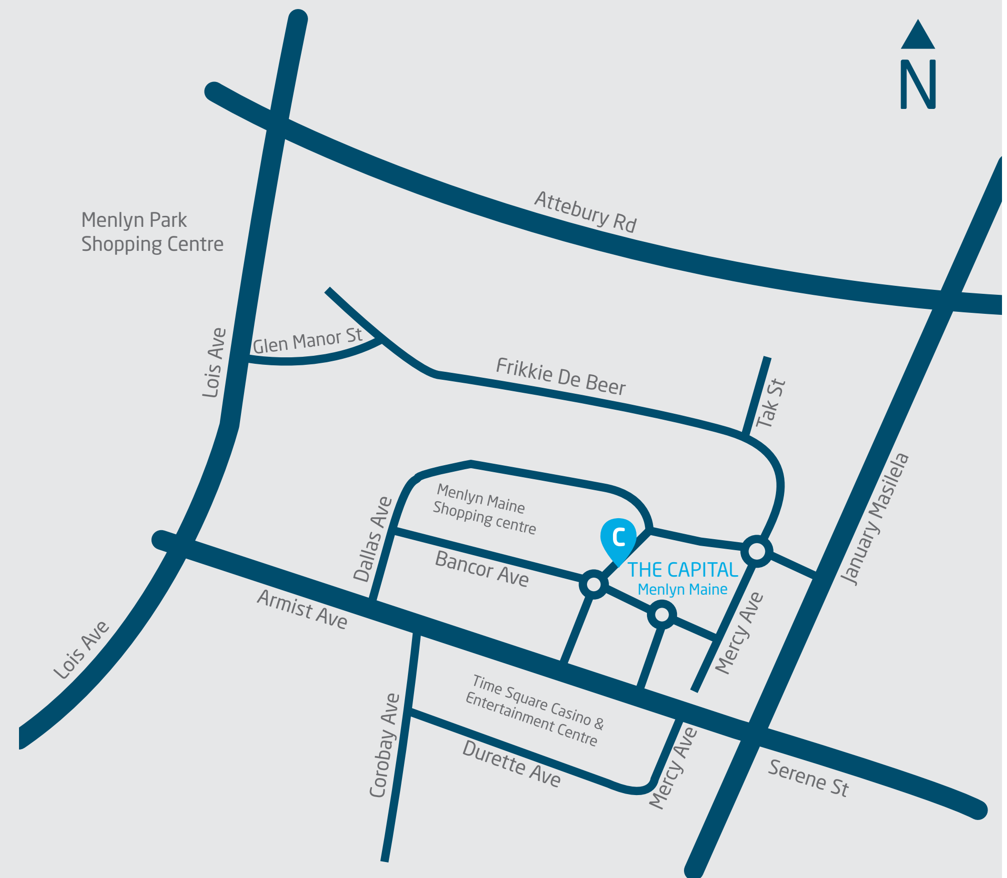
08:00 - 08:45	Registration
08:45 - 09:50	Opening
08:45 - 09:30	Speaker: **Timothy Maurice Webster**
10:00 - 10:30	Operational overview
10:30 - 11:15	Refreshments
11:30 - 13:00	**Annual General Meeting**
13:00	Lunch

Directions

Capital Hotel,
Menlyn Maine

The Capital Hotel
194 Bancor Avenue
Menlyn Maine
Pretoria

GPS Co-ordinates:
S - 25.786436 / E - 26.281669



Agenda

53rd Conference and Annual General Meeting

Notice is hereby given that the 53rd Annual General Meeting of the members of Bestmed Medical Scheme will be held at 11:30 on Friday, 2 June 2017 at The Capital Hotel, 194 Bancor Avenue, Menlyn Maine, Pretoria.

- Opening by Chairperson
- Finalisation of Agenda
- Report of the Chairperson
- Minutes of the previous Annual General Meeting held on 3 June 2016
- Matters arising from previous Annual General Meeting
- Financial Statements and Auditor's Report
- Appointment of Auditors 2017/2018
- Motions received in terms of Rule 26.1.5
- Approval of Amended Trustee Remuneration
- Progress with the Directives issues by the Council for Medical Schemes against the Scheme after the routine inspection during 2011
- Progress with Complaints lodged against the Scheme at the Council for Medical Schemes
- Closure

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

Minutes

Minutes of the 52nd Annual General Meeting of representatives of employers, employees and members held at 12:00 on Friday, 3 June 2016 at the CSIR International Conference Centre, Pretoria, Gauteng.

1. Opening by Chairperson

1.1 Present

1.1.1 150 active voting members.

1.1.2 7 members of the Board of Trustees.

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

1.1.4 247 other attendees being non-members, guests and employer representatives.

Apologies

An apology was received from Mr Willem Myburgh, a Board member since 2012. Mr Myburgh is retiring and his term of office will expire after the Annual General Meeting (AGM). The election of a Board member to replace Mr Myburgh is under way and the newly elected Board member will be announced after finalisation of the election process.

The Chairperson also informed the meeting that Dr Joan Moncrieff, a Board member representing pensioner members, was terminally ill. He requested members to keep her and her family in their prayers.

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, management and staff of Bestmed. The Chairperson also extended a word of welcome to an esteemed guest, Mr Sibonelo Cele of the CMS. He expressed his appreciation towards Mr Cele for attending Bestmed's AGM.

2. Finalisation of agenda

The agenda was unanimously adopted.

3. Report of the Chairperson

The report of the Chairperson was noted. The Chairperson thanked Board members and Bestmed's employees for their dedication and excellent service rendered over the past year.

4. Minutes of previous Annual General Meeting held on 26 June 2015

The minutes of the 51st AGM were unanimously accepted as a fair and accurate record of the proceedings and signed by the Chairperson.

Proposed: Mrs A Hartzenberg (membership number: 0337536); seconded: name and membership number of the secondment not audible on recording

5. Matters arising from the previous Annual General Meeting

5.1 Review of optometry benefits

The Principal Officer indicated that members have been informed that the request to review the Scheme's optometry benefits made at the AGM the previous year would be referred to the Product Development Department for consideration. However, seven of the Scheme's ten benefit options recorded a loss in 2015. As a result, the benefits for optometry, which is not a live-saving and life-sustaining service, could not be augmented, as it would result in an additional increase in subscription fees.

6. 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. The Finance Executive Manager 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.

6.1 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 2015, 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, (Act No 131 of 1998) as amended, Section 33(2).

6.2 Synopsis: 2015 financial statements at a glance

In absolute terms, the Scheme recorded 9.24% more income and paid 9.62% more benefits in 2015 than in 2014, with a total non-healthcare cost increase of 8.9%. The financial statements reflected a zero balance in respect of intangible assets, resulting from the impairment of the R8.9 million IT development cost.

Should this impairment not be taken into account, the total non-healthcare cost increased by only 6.2%. Expressed on a per-member basis, risk contributions increased on average by 5.96%, while benefits paid per member increased by 6.34%. Excluding the impairment of IT development costs, non-healthcare cost paid per member increased by only 3%.

6.3 Highlights from the statement of comprehensive income

The financial statements reflected a total comprehensive contribution income of R4 236 652 for 2015. Although a net healthcare deficit of R40 million was recorded for the year due to higher benefit expenditure, other sources provided sufficient income to produce a net surplus of R39 million for the year. The total comprehensive income for the year after accounting for fair value adjustments was R15 million.

'Other income' related largely to investment income of R87.9 million and sundry income of R3.1 million, which included unclaimed cheques that were written back. The external investment funds are managed by asset managers who are paid investment management fees determined by the Board's Investment Committee, based on advice received from Towers Watson, an independent consultancy firm. In 2015, this fee amounted to R7.1 million. 'Other expenses' relate 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.

The bulk of the Scheme's liabilities consist of members' savings account funds, on which they receive interest and which are used to pay for their day-to-day benefits.

In contrast to companies that pay dividends to shareholders, Bestmed, as a mutual, not-for-profit organisation, returns most of its income to members in the form of benefits.

6.4 Highlights from the statement of financial position

The non-current portion of the available-for-sale investments decreased from R1 billion in 2014 to R991 million in 2015, while total assets increased slightly from R1.89 million in 2014 to R1.91 million in 2015. Assets in respect of property and equipment amounted to R20 million. Loans and receivables relate to loans granted to employees in the past, a practice which has been discontinued. With regard to long-term liabilities, retirement fund obligations in respect of former employees were declining.

'Assets held for sale' relate to a property obtained following amalgamation with Telemed Medical Scheme, which was impaired to R3.2 million when the property was disposed of. Transfer of the property is in the process of finalisation. The Scheme's liabilities consisted of R539 million of assets held in trust from members' savings accounts.

6.5 Solvency

The solvency ratio at 31 December 2015 was 25.58%, compared to the statutory requirement of 25%. The solvency ratio is the ratio of the net asset value of the Scheme (R1.1 billion) to the gross contributions of R4.2 billion. This was a clear message that the Scheme was financially strong and well able to pay its dues on behalf of its members.

6.6 Investments

The Scheme's net worth at year end was R1.2 billion. Its investment strategy showed a net return of 4.3% per annum measured over the last 12 months and 9.7% per annum since inception (120 months), which was 3.5% per annum ahead of inflation.

An eligible member enquired what the break-even point for Bestmed was. The Finance Executive Manager explained that achieving break-even point would require a positive net surplus. This implied either an increase in income by R40 million or a decrease in benefit expenditure by R40 million.

6.7 Approval and adoption of the financial statements

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

Proposed: Mr Ronnie Nemaston (membership number: 1713957); seconded: Mrs Annelize Hartzenberg (membership number: 0337536)

7. Appointment of auditors for financial year ending 31 December 2016

The meeting was informed that the members present at the AGM should appoint the external auditors for the next financial year.

PricewaterhouseCoopers (PwC) had served as the Scheme's auditors for the financial year ending 31 December 2015. The Board of Trustees and the Audit Committee recommended that PwC be reappointed as auditors for the Scheme for the financial year ending 31 December 2016.

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

8. Motions received in terms of Rule 26.1.5

The motion received in terms of the

stipulations of Rule 26.1.5 was dealt with after approval of the minutes of the previous AGM. Since members were required to vote on the motion, sufficient time was required to count the votes prior to conclusion of the meeting.

One motion, moved and seconded by two registered members, was received in terms of the stipulations of Rule 26.1.5.

The Principal Officer informed the meeting that PwC had been tasked with the distribution, collection, safeguarding and formal counting of the ballots. He then proceeded with the discussion of the motion dealing with the reversion of the current rule on benefits for over-the-counter (OTC) medicine in the case of the Pace3 benefit option.

Motion 1:

The purpose of Motion 1 was to reverse the 2016 rule amendments in respect of the following Bestmed Medical Scheme Rules in Annexures B.3 and C, and to reinstate the 2015 version of these rules:

- Rule 3.3.2
- Rule 3.3.4
- Rule 3.3.12
- Rule 3.5.1
- Rule 2.3
- Rule 2.11

The Principal Officer explained that, in terms of Rule 3.3.4, benefits for OTC medicine on the Pace3 benefit option had been paid 100% at cost from the member's personal medical savings account (PMSA) or vested savings account in 2015. To limit cost increases, the Rule was amended in 2016, stipulating that benefits for OTC medicine would only be paid at 100% of the Scheme tariff, also known as the Mediscor Reference Price, limited to R500 per family per year. The motion therefore proposed a revision of the 2016 rule.

Legend: ____ = rule amendment for 2016

Rule amendments in Annexure B.3 – Pace3 benefit option

Revision 1

The 2015 (old) Rule:

"3.3.2 The PMSA shall be used solely for medical expenses relating to day-to-day benefits referred to in Rule 3.4 of this Annexure, subject to the exclusions referred to in Annexure C of these Rules."

The 2016 (current) Rule:

"3.3.2 The PMSA shall be used solely for medical expenses pertaining to day-to-day benefits referred to in Rules 3.3.12 and 3.4 of this Annexure B3, subject to the exclusions referred to in Annexure C of the registered Rules. The funds in the member's PMSA shall not be used to pay the cost pertaining to PMB services or to offset contributions."

Revision 2

The 2015 (old) Rule:

"3.3.4 Subject to sufficient funds being available at the date on which a claim is processed, members shall be entitled to claim for all health-care services provided for under Section 3.4 of this Annexure at 100% of the cost. Any balance in the PMSA at the end of a financial year remains the property of the member and accumulates to his credit. Interest income shall be allocated on a pro-rata basis at month-end and shall accrue to this balance."

The 2016 (current) Rule:

"3.3.4 The member is responsible for managing the PMSA. Subject to sufficient funds being available at the date on which a claim is processed, members shall be entitled to claim for all health- care services provided for under Rule 3.4 of this Annexure B3 at 100% of the Scheme tariff."

Revision 3

The 2015 (old) Rule:

"3.4.5.2 OTC medicine – 100% of the cost, subject only to funds available in the PMSA or the Bonus Account (Vested Medical Savings)."

The 2016 (current) Rule:

"3.3.12 OTC medicine - 100% of the Scheme tariff up to the limit of R500 per family, subject only to funds being available in the PMSA."

Revision 4

The 2015 (old) Rule:

"3.5.1 The Bonus Account (Vested Medical Savings) funds shall be used solely for medical expenses relating to day-to-day benefits and may be subject to the exclusions referred to in Annexure C of these Rules. These funds shall further only be used once all funds in the PMSA and the applicable annual maxima are depleted."

The 2016 (current) Rule:

"3.5.1 The funds in the Vested Medical Savings Account shall be used solely for medical expenses referred to in Rule 3.3.12 and those relating to day-to-day benefits, except for PMB services, and may be subject to the exclusions referred to in Annexure C of the registered Rules. These funds may further only be used once all funds in the PMSA and day-to-day overall limits have been depleted."

Rule Amendments in Annexure C - General Exclusions

Revision 5

The 2015 (old) Rule:

"2.3 Nutritional supplements (including patent and baby foods)."

The 2016 (current) Rule:

"2.3 Nutritional supplements (including patent and baby foods), except for those that are prescribed in the treatment of certain PMB conditions and are available in the state sector."

Revision 6

The 2015 (old) Rule:

"2.11 Tonics, stimulants, biological substances, vitamins, minerals and vitamin/mineral combinations unless proven medical indications can be submitted: Provided that Bestmed will contribute for prenatal medicine."

The 2016 (current) Rule:

"2.11 Tonics, stimulants, biological substances, vitamins, minerals and vitamin/mineral combinations unless proven medical indications can be submitted except for those that are prescribed in the treatment of certain PMB conditions and are available in the state sector: Provided that Bestmed will contribute for prenatal medicine."

The Principal Officer explained that the affairs of a medical scheme should be managed in a responsible manner to ensure its continued viability. As a result, the benefit options of a medical scheme were designed to suit the majority of members' needs enrolled on a specific benefit option, and not all members' healthcare needs. He pointed out that maintaining the 2015 rules would have resulted in a 0.5% increase subscription fee. In addition, he made members aware that, should the motion be approved, the amended rule would only be implemented from a future date, since in terms of the registered Rules, members should be notified of a rule amendment two months in advance. It would further not be possible to implement the amended rule retroactively, since it would require reprocessing of all claims in respect of OTC medicine submitted since 1 January 2016. In view of these, amendment of the current rule was not recommended. Should the majority of members vote in favour of the motion, a different way of dealing with the matter would have to be found, as it was not a practical solution to revert to the 2015 rule. He invited members to make an appointment with Bestmed Management to discuss any specific needs they may have for consideration by the Product Development Department.

No questions were asked and members were requested to vote on Motion 1. The Chairperson explained that the auditors, PwC, would collect the completed ballot papers and provide the results before the end of the meeting. He reminded members to sign the ballot paper and also indicated that, should an error be made on the ballot paper, a new one would be issued on request.

Mrs Annelize Hartzenberg, membership number 0337536, enquired why provision had not been made for a secret ballot. The Principal Officer explained that this was a necessary precaution to ensure that only the votes of valid members were counted. He assured members that votes would be kept confidential and remain anonymous.

Adv Lappies Labuschagne, membership number 0052140, enquired that, should members not agree with the motion and support the Board's view that the rule should remain unchanged, the option 'Not in favour' indicated on the ballot paper should be selected. The Chairperson responded by answering in the affirmative. Following this explanation, a member requested whether his ballot paper could be returned to him and a new ballot paper be issued to him as he had voted incorrectly.

The results of the voting on the proposed Rule amendments were given after approval of the annual financial statements.

All of the matters listed in the agenda and set out in the notice regarding voting at the 2016 AGM were voted on by a poll and were duly passed. Details of the votes cast are as follows:

Motion 1:

To reverse the 2016 Rule amendments in respect of the following Bestmed Medical Scheme Rules in Annexures B.3 and C dealing with OTC medicine, and to reinstate the 2015 version of these rules:

- Rule 3.3.2
- Rule 3.3.4
- Rule 3.3.12
- Rule 3.5.1
- Rule 2.3
- Rule 2.11

Votes in favour of the motion: 25
Votes against the motion: 93
Abstain: 5
Spoilt ballot papers: 0
Total votes cast: 123
Motion 1 was rejected with a majority vote.

9. Approval of the Trustee Remuneration for 2016-2017

The Chairperson indicated that the Board recommended that trustee remuneration not be increased for 2016-2017. The recommendation by the Board was unanimously accepted.

10. Progress with the Directives issued by the CMS against the Scheme after the routine inspection during 2011

The CMS issued a set of directives against Bestmed in 2011. The Chairperson informed the meeting that he had received a letter dated 30 March 2016 from Mr Steven Mmatli, General Manager: Compliance and Investigations of the CMS, confirming that Bestmed had complied with all directives and that no further action was required from Bestmed in this regard.

11. Progress with complaints lodged against the Scheme at the CMS

This agenda item was discussed before a report was given on the financial statements for the year ending 31 December 2015, in order to clarify certain matters referred to in the financial statements.

In April 2015, the Board of Trustees received a letter from Mr Mmatli of the CMS, containing a list of allegations filed in an anonymous complaint against Bestmed. The Chairperson and Vice-Chairperson met with representatives of the CMS to clarify the nature of these allegations. The Board then decided to appoint KPMG to conduct a forensic audit on the alleged contraventions by Bestmed. KPMG completed the audit according to the agreed terms of reference and provided a forensic report explaining their findings to the Board of Trustees.

The Board responded to the findings in the KPMG forensic report. In addition, the Audit Committee was instructed to guide the Board in the process, since a number of issues were of a financial nature or may have had financial implications.

The Chairperson then proceeded to explain the allegations made against Bestmed, the findings by KPMG on each of these allegations as well as the Audit Committee's recommendations to the Board of Trustees as follows:

Allegation 1: 'There is nepotism in that Bestmed employs relatives of the Principal Officer'.

- Findings by KPMG: The allegation was unfounded. No proof of nepotism was found. Although relatives of the CEO were employed by Bestmed, they did not report directly to the CEO and were not privileged in any way. These employees were appointed within the constraints of the relevant policy governing the appointment of staff members in Bestmed as it had applied at that stage.
- Recommendation of the Audit Committee: The Audit Committee accepted the finding, on condition that a number of housekeeping matters be attended to as stipulated by the Audit Committee, including the revision of policies and actions to prevent contravention of any of the policy stipulations.
- The Board accepted the recommendation of the Audit Committee and requested the Audit Committee to attend to the housekeeping matters identified. A policy has since been implemented to prohibit the appointment of family members and relatives of Bestmed employees.

Allegation 2: 'Friends and associates of Bestmed employees are appointed as service providers without following due process'.

- Findings by KMPG: The allegation was founded. Bestmed had appointed service providers to develop an IT system to facilitate the lead management process without following due process and prescribed policy. In terms of Bestmed's Procurement Policy, circumvention of the policy was allowed in certain instances requiring urgent action. In this instance, service providers were appointed without following the prescribed policy due to time constraints.
- Recommendation of the Audit Committee: The Audit Committee accepted the finding and recommended that an routine inspection be conducted on the decisions taken in this particular instance. The results of the routine inspection did not reveal any irregularities with regard to the appointment of a service provider to fulfill this particular contract resulting in the allegation. Although the Scheme's procurement policy was not followed in full in this particular instance, the routine inspection conducted by the Audit Committee confirmed that the Scheme had not suffered any losses, neither had anybody been privileged by the decisions taken. The Audit Committee further instructed that appropriate procedure be followed in future.
- The Board accepted the Audit Committee's recommendations. They requested the Audit Committee to ensure that the relevant housekeeping matters involving a review and full implementation of the procurement policy be attended to appropriately.

Allegation 3: 'Bestmed employees have companies that are doing business with Bestmed'.

- Finding by KMPG: The allegation was unfounded.
- Recommendation of the Audit Committee: The Audit Committee accepted the finding, but instructed that a review be conducted on Mr Chris Luyt's equity in Medstra and the implications thereof, to prevent conflict of interest. Mr Luyt was appointed as Marketing, Sales and Distribution Executive Manager in 2014. Prior to his appointment, he

owned a business named Medstra, which was contracted to render certain services to Bestmed from approximately 2000 to 2006. As from 2009, Medstra had not been contracted to render any services to Bestmed.
- The Board accepted the finding. Since there were a number of Bestmed employees owning companies or closed corporations, the Board decided to implement a policy requiring all employees to annually report all interests in any other business to prevent conflict of interest.

Allegation 4: 'Bestmed assets and resources are used by persons who are not employees of Bestmed to conduct their business, without paying for such use'.

- In a few instances, persons not employed by Bestmed had used the boardroom for business meetings other than Bestmed business.
- Finding by KMPG: The allegation was founded, although it appeared to be not excessive or material.
- Recommendation of the Audit Committee: The Audit Committee accepted the finding, on condition that the practice of making Bestmed's boardrooms available to non-employees for conducting business without paying for such use should be reviewed. In addition, a resolution should be obtained for communication to all staff members in the form of a defined policy or procedure. Such procedure has been implemented.
- The Board accepted the finding as well as the recommendations of the Audit Committee. They instructed the Audit Committee to oversee the review of the process of the use of Bestmed's boardrooms and other assets. In view of the insignificant cost for the use of Bestmed's boardroom, the Board decided not to conduct further routine inspection on this matter, as the cost of the routine inspection would not justify the minimal results that might be revealed by the routine inspection.

Allegation 5: 'Bestmed is conducting business outside the borders of South Africa, on request of the Principal Officer, without obtaining prior approval of the Board of Trustees'.

- Finding by KPMG: The allegation was unfounded, although a number of Bestmed members resided outside the borders of South Africa.
- Recommendation of the Audit Committee: The Audit Committee accepted the finding, but recommended that the administration of these members with regard to the recovery of subscriptions and claims payment, which might be in contravention of statutory requirements, be reviewed by management.
- The Board accepted the finding and the Audit Committee's recommendation.
- In addition to Bestmed members residing in Lesotho, a number of members resided in Mozambique.
- The subscriptions of Lesotho members are paid directly to Bestmed in South African Rand. The systems used by service providers, registered as local service providers, are similar to the systems used in South Africa.
- The subscriptions for Mozambique members were recovered through an intermediary's bank account after currency conversion, constituting a contravention of the Medical Schemes Act, 1998. Since no amenable solution to this administrative problem could be found, this business was terminated on 31 December 2015.
- The majority of the services were rendered in South Africa and all benefits were paid in South African Rand. As a result, no losses due to exchange rate fluctuations were suffered.

Allegation 6: 'Bestmed is self-administered, however, it pays administration fees to third parties. The alleged third parties are not accredited as contemplated by the provisions of Section 58 of the Medical Schemes Act, 1998'.

- Finding by KPMG: The allegation was unfounded. No indication of administration fees paid to third parties was found. Bestmed contracts third parties to render certain services, excluding administration services, and uses a coded system to make payments to the contracted third parties. In this particular instance, payments were made to the contracted third parties using the payment code labelled 'outside administrators', although no payments were made to a third-party administrator.
- Recommendation of the Audit Committee: The Audit Committee accepted the finding, but recommended that the appointment of an internal employee be considered who, under the guidance of an external person with the appropriate skills, should investigate all matters raised in the KPMG report in relation to the transgression of Bestmed policies, with the view of recommending appropriate steps to be taken.
- The Board accepted the finding, as well as the Audit Committee's recommendations. The Audit Committee was instructed to oversee the review of policy transgressions as well as the review of internal controls as recommended.

Allegation 7: 'Bestmed is operating a loyalty programme for members and is recovering contributions from members for the loyalty programme'.

- Finding by KPMG: The allegation was unfounded. Bestmed had not collected any contributions from members for and on behalf of the organisation managing the Scheme's Justrewards loyalty programme. Any amounts due by the members are paid directly to the service providers.
- The recommendation of the Audit Committee: The finding was accepted.
- The Board accepted the finding and the matter was concluded.

Allegation 8: 'Bestmed is remunerating brokers above the prescribed remuneration rate'.

- Finding by KPMG: The allegation was unfounded.
- Recommendation of the Audit Committee: The finding was accepted.
- The Board accepted the finding. However, an audit conducted in 2015 revealed that the payment made to two brokers over the previous year exceeded the statutory prescribed fee due to an administrative oversight. This information was also disclosed in the financial statements. These errors were corrected and the overpayments recovered from the brokers concerned, as reflected in the annual financial statements.

Allegation 9: 'Bestmed is remunerating non-brokers for providing services in respect of introduction or admission as members'.

- Finding by KPMG: The allegation was founded for the following reasons:
  - Bestmed has concluded Service Level Agreements (SLAs) and Marketing and Distribution Agreements (MDAs) with contractors, stipulating that fees payable would be based on time spent to enrol new members. However, the actual payments made were not based on this principle, since the IT system used could not process this information. A different agreement was negotiated with the service providers, which was not reflected in the initial contract concluded with the service provider. In terms of the different agreement reached, each contractor was linked to a specific brokerage. In the case of the SLAs, the contractors were paid 1% of contributions recovered from members who were introduced by the particular broker linked to the service provider. With regard to the MDAs, contractors were paid R1 000 for each lead that resulted in a successful membership application by a broker.
  - In the case of the SLAs, the total payments made from 1 January 2012 to 31 December 2014 amounted to R19 million, while the payments made in respect of the MDAs during this period totalled R15 million.

The Audit Committee accepted the finding and made the following recommendations:

- Management should inform the Board why they had failed to comply with the terms of the contracts and the steps that would be taken to rectify this.
- This allegation might be open to differing interpretations of statutory requirements with regard to compliance or non-compliance. As a result, the Board was advised to obtain legal advice from Senior Counsel on whether the payments made to the contractors were in compliance with statutory requirements and, if not , what actions should be taken to correct the situation.
- Should the payments not comply with statutory requirements, the Board should consider the consequences.

After discussing the matter, the Board decided as follows:

- Bestmed's contracts with independent contractors and proof of payments made from 1 January 2012 to 31 May 2015 should be scrutinised by legal advisors to determine:
  - Whether the contracts were valid/legal.
  - Whether payments were made according to the stipulations of the contracts.
  - What the implications were if payments had not been made according to the stipulations of the contracts.
- A review of controls on internal processes should be conducted by means of a defined process under guidance of the Audit Committee. A report explaining the findings and recommendations should be provided to the Board of Trustees.
- The new contracts entered into with service providers should be reviewed to prevent inappropriate actions.
- A final report should be provided by KPMG for submission to the CMS. This had indeed been submitted to the CMS.
- A compliance officer and a legal advisor should be appointed as soon as possible and the two roles should be separated.
- A proposal on how to strengthen the internal audit function should be submitted.
- A proper governance audit should be conducted as soon as possible.

The Chairperson also informed members of the following progress made to

solve the matter and to prevent similar inconsistencies in future:

- Legal advice on the contracts and payments made from 1 January 2012 to 31 May 2015 was obtained. With the exception of one of the services identified involving a service to be rendered by a broker, the initial contracts concluded were indeed legal.
- In May 2015, it was discovered that certain contractors were accredited with the CMS as brokers. As a result, the original contracts concluded in 2012 were terminated at the end of May 2015.
- A complete analysis was conducted on the payments made to the contractors in an attempt to identify if the remuneration paid to any one of them had exceeded the amount due to them. Although the results of the analysis were inconclusive, it appeared reasonable, compared to the amounts paid to contractors in terms of the new contracts concluded in 2015.
- The Board was of the opinion that it would not be possible to calculate the amounts paid to the contractors for the legitimate service rendered versus the amounts paid in respect of the broker service rendered.
- A limited number of new contracts for specific marketing and lead management services rendered to Bestmed were concluded. These contracts had been scrutinised and were completely legal.
- The Chairperson and Vice-Chairperson were called to a meeting with representatives of the CMS. They were informed that from an oversight and governance perspective, the CMS was of the opinion that certain matters in the KPMG forensic report should have been investigated in more detail. Although the Board of Trustees acknowledged that certain matters could have been more thoroughly investigated, the additional value gained from any further routine inspection would, in the view of the Board, not have been significant, compared to the cost of the routine inspection. As a result, no further work was undertaken on some of the matters. The Board requested further legal opinion on the further action that should be taken, based on the findings on this part of the process.
- A letter was received from Mr Mmatli of the CMS the previous day. The Chairperson and Vice-Chairperson scheduled a meeting for 6 June 2016 to discuss the contents of the letter. The CMS also indicated that it would conduct its own routine inspection with regard to these allegations.
- All matters involving a contravention of the Act and/or Regulations were disclosed in full in the Annual Report and financial statements presented to members.

Members were given the opportunity to ask questions to the Chairperson regarding the allegations. An eligible member enquired whether members introduced by brokers were cross-subsidised by other members of a medical scheme, since these members were paying only 90% of subscription fees, while members not introduced by brokers were paying the full subscription fees. The Chairperson explained that in terms of the stipulations of the Medical Schemes Act, 1998 brokers may be paid 3% of subscription fees plus value-added tax (VAT). As a result, 97% of subscription fees were paid towards benefits and administration, while in the case of a member not introduced by a broker, the full subscription fees were paid to the Scheme. It was also indicated that brokers servicing employer groups were paid 3% of the subscription fees recovered collectively from the members in the employer group. The Chairperson further pointed out that in terms of legislation, brokers were required to disclose to the prospective member that they would be paid 3% of the monthly subscription fees.

A member, who did not state his name and membership number, posed three questions to the Chairperson. Firstly, he enquired whether there was a fixed term of office for Board members and, if not, what the reasons were. Secondly, he wanted to know whether there was a limit on the number of times Board members may be re-elected. Thirdly, the member expressed concern that there appeared to be fairly regular contraventions of the stipulations of the King III Report on Corporate Governance, involving a marketing tour undertaken as reported at the previous year's AGM and an issue with an IT provider dealt with at the AGM the year before last year. He wanted to know whether anybody was held accountable for these transgressions and, if not, what the reasons were.

The Chairperson responded to the first question by explaining that every Board member was elected for a defined term as stipulated in the Bestmed Rules. The terms of office of the various Board members, and as a result the election, did not coincide, as not all Board members' terms of office expired on the same date. With regard to the second question, the Principal Officer replied that the normal term of office of a Board member expired after four years as stipulated in Rule 18.3.7. However, in certain instances, for example a newly elected Board, the Rules provided for rotation of Board members to prevent re-election of the entire Board of Trustees simultaneously. The Rules did not impose a limit on the number of times a Board member may be re-elected. The Principal Officer further indicated that he was not in favour of imposing a restriction on the number of re-elections in view of the complexity of the industry. In response to the member's third question, the Chairperson indicated that the CMS had instructed that the Scheme's

members be informed of the marketing expenses incurred in respect of the Neil Diamond concert and the Botswana tour at the AGM in 2015. He explained that the current Board of Trustees was not involved in these transgressions in any way. Similarly, the SLAs and MDAs were concluded prior to the appointment of the current Board. The Board of Trustees was obtaining legal advice on any further action to be taken to ensure their personal involvement would not interfere with the judgement decisions to be taken.

Mr Frank Dempsey, membership number 1198310, supported the concern raised by the previous speaker, indicating that in view of the allegations discussed at the AGM it appeared that there was a lack of proper governance on management's side. He expressed his confidence in the Chairperson of the Board to solve these matters in order to prevent another negative report at the AGM in 2017.

The Chairperson responded by informing members that if any irregularities should come to the attention of the Board, they would be reported at the AGM. He assured members that the Board was committed to fully comply with the stipulations of the Medical Schemes Act, 1998 in conducting the business of the Scheme. In addition, the Board would cooperate with the CMS to ensure the Scheme's affairs were managed in a proper manner.

An eligible member enquired why the Board commissioned the Audit Committee to conduct a further routine inspection after having received an independent opinion in the form of the KPMG forensic report. The Chairperson explained that the Board requested the guidance of the Audit Committee as a statutory committee assisting the Board in executing its duties effectively in order to take appropriate decisions on the findings by KPMG.

While the routine inspection by KPMG focused mainly on whether due process was followed, the Audit Committee conducted an routine inspection to determine whether any financial losses were suffered by not following due process.

Mr Ronnie Nemaston, membership number 1713957, raised the opinion that there were a number of frivolous issues, for example nepotism, which could have been dealt with effectively by management, instead of incurring significant financial cost for having these investigated. The Chairperson explained that the current Board of Trustees was only appointed in November 2014 and, therefore, was not involved in these matters.

After discussions with the CMS on the allegations raised in their letter of April 2015, the Board appointed KPMG to conduct an audit to investigate and resolve these complaints. The cost of the audit amounted to approximately R1.1 million. The Chairperson further indicated that irrespective of the results of the routine inspection that would be conducted by the CMS, the Board would take any appropriate decisions as they deemed fit for solving similar issues.

An eligible member indicated that members had received the report a week prior to the AGM and requested whether it would be possible to provide it to members one month in advance. The Chairperson replied that the notification would have been sent to members within the time-frame stipulated in the Bestmed Rules. As stipulated in the Rules, claims should be submitted to the Scheme within four months after the service.

As a result, the financial statements could only be finalised at the end of April. It would therefore not always be possible to provide the report to members one month in advance. In instances where it would be possible, the report would be provided to members earlier.

Closure

The Chairperson thanked those present for their keen interest in Bestmed and wished them well for the coming year. The proceedings concluded at 14:55.

Signed in Pretoria on this _______ day of _________________ 2017.

RF Camphor (Mr)
Chairperson
Bestmed Board of Trustees

Chairperson's Report

Overview

It is my privilege, once again, to table this report in which I highlight the activities of Bestmed Medical Scheme during the 2016 financial year to all stakeholders.

In South Africa, this was a period of extremely tough economic conditions. The third quarter of 2016 delivered a mere 0.2% growth with estimated growth for the full year dwindling to below 0.5%.

Protests at academic institutions remained a significant symptom of 2016 and this had a definite impact on Bestmed, since a meaningful proportion of our members are employed at academic institutions.

Despite this challenging environment, however, I am pleased to report that Bestmed achieved a robust performance. Reserves have strengthened and members will be happy to learn that we have maintained the reserve level above the prescribed statutory level of 25% of gross contributions. This performance is markedly better than the performance recorded by the vast majority of medical schemes during this period, many of which recorded losses for the year.

A significant advantage of Bestmed's strong reserve level is the stability it brings to the organisation and its increased capacity to meet members' needs. In addition, the Scheme earned investment returns on the reserves amounting to R86.8 million, no less than 53,8% of our total net surplus of R161.3 million for 2016.

Strategic Review

The Scheme's strategic framework is reviewed annually by its Executive Management and the Board, and annual business plans are then compiled based on the revised strategic framework.

Although our strategies for the year seemed to work well, the downward spiral in the economy brought about a higher loss of members than in previous years, and this necessitated a wide-ranging revision of member retention plans, as well as certain benefit structures. The medical scheme industry functions in what is regarded as a very mature market, characterised by fierce competition and heavy regulation. In this environment, it is always essential to find ways to retain members. In 2016 this environment became even harsher than before.

As is commonly known, poor economic conditions lead to job losses, and insurance-related products of any kind are among the first items to be trimmed or abandoned when families are struggling, as they have been this past year. Fortunately, our prompt response to the loss of members enabled us to recruit new members with a reduced average age. Not only did this counteract the loss of members who could no longer afford medical insurance, it also reinforced our ability to sustain a robust membership pool.

The core focus of Bestmed's strategic management is the wellness of members and their dependants. When the external environment requires it, we develop and implement supporting strategies to ensure that our business plans achieve our ultimate goal of enhancing beneficiaries' wellness.

I am pleased to report that Bestmed's Trustees are satisfied that the Scheme's current strategies are effective in fulfilling the needs of members and keeping the Scheme operating successfully.

Governance

Before turning to governance issues per se, I wish to report on a few changes to the Board of Trustees that have taken place during this period.

It is with great personal sadness that I must record the passing away of Dr Joan Moncrieff. Those of us who knew her during her term of office as a Trustee will remember her as an exceptionally loyal member of both the Scheme and the Board – so much so that she was already terminally ill when she attended her last Board of Trustees meeting.

She is sorely missed by Board members, executive managers and employees. We wish to also in this way bring tribute to her and offer our condolences to her family.

Mr Etienne Steenkamp resigned from the Board of Trustees during the year, and I wish to thank him for his contributions and wish him well in his new endeavours.

Two new members, Prof Kobus van Rooyen and Mr Johannes Lachmann, were appointed and Ms Elmarie Marx was elected to the Board in accordance with the Rules of the Scheme to fill the vacancies that had arisen. We look forward to working with Prof van Rooyen and Ms Marx and utilising their expertise in our members' interests.

The King IV Report on Corporate Governance was released on 1 November 2016 and replaces King III in its entirety. Whereas the King III guidelines were based on an underlying principle of 'apply **or** explain', the guiding principle of King IV is for organisations to 'apply **and** explain'. This seemingly insignificant change of one small word actually represents a major shift in philosophy, so much so that the new guidelines cannot, in our view, all be implemented at once. The Board is approaching the matter by aligning the Scheme's policies to the new approach, which will be implemented over a period of time.

The Board has over the past year discussed and scrutinised the control and governance of the business and it remains one of our priorities to ensure the Scheme is managed in accordance with the highest standards of

governance for the benefit of members and participating employers.

I am satisfied that the Board collectively possesses the desired qualifications, experience and resolve to govern the Scheme successfully in the closely regulated environment in which Bestmed operates.

The Board took the decision to formally assess its performance over the past year. At the time of drafting this report the assessment had been undertaken and the results will be utilised in the process of planning the objectives to be achieved during the year ahead. The results of this assessment will also serve as a departure point for improving the functioning of the Board of Trustees in fulfilling its role going forward.

Council for Medical Schemes

We reported in 2016 that the Council for Medical Schemes (CMS) had informed the Board in 2015 of possible transgressions by Bestmed of the Medical Schemes Act (MSA). The Board of Trustees serving at the time, appointed KPMG to investigate the allegations and report back to the Board.

KPMG submitted its report setting out the findings of their forensic routine inspection to the Board of Trustees in early 2016. This report was then forwarded to the CMS. During the 2016 Annual General Meeting (AGM), the current Chairperson made a detailed presentation of the findings presented in the KPMG report, the resultant recommendations and subsequent actions taken by the Board to all members present at the AGM. At this meeting, a duly appointed representative of the CMS' compliance department was also present.

The CMS had, however, informed the Board just prior to the 2016 AGM that it had ordered its own routine inspection into the allegations. Such an allegation would be instituted on the basis of Section 44 of the MSA. It was further communicated to Bestmed that this routine inspection would again focus on the same allegations already investigated by KPMG in 2015. The CMS anticipates that this routine inspection will be finalised during 2017 and advised that a draft report would then be provided to Bestmed and its Board for comment.

At the time of drafting this report to members, the CMS routine inspection is still in progress and there is little I can report other than the fact that the Board took the decision to fully cooperate with the routine inspection by the CMS.

In January 2015, Bestmed launched an appeal in terms of Section 50 of the MSA to verify the legality of the decision of the CMS, taken on 29 October 2014, to remove nine of its trustees in terms of Section 46 of the MSA. The appeal was dismissed on technical points in limine raised by the CMS and the decision of the CMS (removing Bestmed's former trustees) was confirmed. The Board of Trustees have decided not to proceed with a High Court review and, this process is now concluded.

The Competition Commission inquiry into the cost of private healthcare

While Bestmed participated in this public debate in 2015 and 2016, the process has not yet been concluded and the final report is still to be delivered. The objective of the inquiry 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. Bestmed remains committed to offering affordable private healthcare to members and we will do everything in our power to continue doing so.

The future

In his 2017 budget speech, the Minister of Finance announced that some progress will be made this year with the implementation of a National Health Insurance (NHI) System. We are acutely aware of the budgetary constraints and, in our view, even the reduction of the current medical scheme tax subsidies in favour of an increased national health budget, will not be adequate to make any impact on the huge need for funding the successful implementation of the NHI. The removal of the tax subsidies will, however, focus the debate on the current regulation of private health and the way it should be done going forward. We look forward to contributing to that debate.

My appreciation

I wish to convey my most sincere appreciation to my colleagues as Trustees on Bestmed's Board for their cooperation and support during a difficult year. Without your commitment, drive and support, Bestmed would not have been in the strong position it is now. I thank each one of you for your continued support and dedication.

I also wish to express my heartfelt gratitude to Bestmed's management and employees for their loyalty and dedicated hard work. You are indeed delivering on the Scheme's promise of *Personally Yours*. I am confident that your hard work and dedication is appreciated by all members.

Bestmed's CEO of the past 21 years, Dries la Grange left the employment of Bestmed earlier than his planned retirement at the end of 2018. Although this happened after the end of the financial year, to which this report relates, I believe this event needs to be reported to stakeholders as it happened at the time of drafting the Board report.

The Board has the highest appreciation for the way in which Dries guided the growth and success of Bestmed over time. The legacy he leaves is clearly visible and we would like to thank him for his contribution to Bestmed and wish him well.

The Board decided that it was better to manage the impact of Dries' departure before the implementation of the new system rather than after it. Once we push the 'go' button on the new IT system, we will require the full attention and effort of all employees to make this work well for Bestmed. Any distraction that affects attention or disrupts the process immediately, or shortly after implementation, risks impacting service delivery. The Board is of the opinion that this risk is not acceptable, hence our decision to accept the departure of Dries at the earlier date.

Dries' last day of office was 31 March 2017. Having regard to Bestmed's operational imperatives, the Board of Trustees and Dries concluded a mutual separation agreement.

The process of finding a new CEO has started and will run its course as a normal recruitment process to find the best candidate available for the vacant position. In the meantime the Board requested Pieter van Zyl to act in the role of CEO and Principal Officer. Because he will be taking this on in addition to his normal responsibilities, the Board designated a few specific Board members to assist Pieter and the Executive Management in fulfilling their roles for the interim period. We believe the management of Bestmed will continue in good hands until a new CEO and Principal Officer is employed. The CMS and the Acting Registrar were informed of these changes in the required and appropriate way.

The Board has full confidence in Pieter and the Executive Management team to continue with business as usual in delivering the high-quality service all Bestmed Stakeholders have become accustomed to and to even improve thereon. He joined Bestmed in 1990, and has an outstanding record of success and introduced many innovations that have led to continuous improvement in the administration of the Scheme. Pieter has strong support from all Bestmed's staff members, with whom he has a very close personal and working relationship.

RF Camphor (Mr)
Chairperson
Bestmed Board of Trustees

Highlights of the 2016 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 10 June 2017.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

	2016 R	2015 R
ASSETS		
Non-current assets	**1 092 162 000**	**1 012 055 100**
Property and equipment	19 825 250	19 829 900
Investment property	1 600 000	1 500 000
Intangible assets	2 279 886	-
Available-for-sale investments	1 068 456 864	990 725 200
Current assets	**1 069 541 074**	**895 758 555**
Available-for-sale investments	728 228 738	626 144 474
Scheme	285 214 835	275 862 767
Personal medical savings account trust monies invested	443 013 903	350 281 707
Loans and receivables	-	21 558
Trade and other receivables	87 422 006	70 345 157
Assets held for sale	-	3 200 000
Cash and cash equivalents	253 890 330	196 047 366
Scheme	130 581 559	19 450 154
Personal medical savings account trust monies invested	123 308 771	176 597 212
Total assets	**2 161 703 074**	**1 907 813 655**
FUNDS AND LIABILITIES		
Members' Funds	**1 333 117 471**	**1 150 631 151**
Accumulated funds	1 244 243 611	1 082 961 815
Revaluation reserves	-	1 497 295
Available-for-sale fair value reserve	88 873 860	66 172 041
Non-current liabilities	**13 333 401**	**13 264 418**
Retirement benefit obligations	13 333 401	13 264 418
Current liabilities	**815 252 202**	**743 918 086**
Personal medical savings account trust liability	583 457 231	538 756 605
Outstanding claims provision	109 154 663	89 116 318
Trade and other payables	122 640 308	116 045 163
Total funds and Liabilities	**2 161 703 074**	**1 907 813 655**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 R	2015 R
Risk contribution income	**3 918 440 700**	**3 552 873 295**
Relevant healthcare expenditure	**(3 448 712 203)**	**(3 242 230 477)**
Net claims incurred	(3 465 526 570)	(3 258 289 295)
Risk claims incurred	(3 373 294 099)	(3 175 860 316)
Third party claims recoveries	7 936 003	4 690 573
Accredited managed healthcare services	(100 168 473)	(87 119 552)
Net income/(expense) on risk transfer arrangements	16 814 367	16 058 818
Risk transfer arrangement premiums paid	(118 042 778)	(113 525 748)
Recoveries from risk transfer arrangements	134 857 146	129 584 566
Gross healthcare result	**469 728 498**	**310 642 818**
Broker service fees and other distribution fees	(74 915 428)	(70 010 411)
Administration and other operative expenses	(306 915 065)	(276 554 432)
Net impairment losses on healthcare receivables	(2 899 348)	(3 768 995)
Net healthcare result	**84 998 657**	**(39 691 020)**
Other income	**125 389 491**	**117 457 940**
Investment income	122 291 164	114 380 091
Scheme	86 770 481	87 934 702
Personal medical savings account trust monies invested	35 520 683	26 445 389
Sundry income	3 098 327	3 077 849
Other expenditure	**(49 106 352)**	**(39 164 215)**
Interest paid on personal medical savings trust accounts	(35 520 683)	(26 445 389)
Interest paid	(87 566)	(42 790)
Asset management fees	(6 184 931)	(7 083 070)
Own facility net expenditure	(7 244 956)	(5 567 193)
Other losses	(68 215)	(25 773)
NET SURPLUS FOR THE YEAR	**161 281 796**	**38 602 705**
Other comprehensive income	**21 204 524**	**(23 865 911)**
Fair value adjustment on available-for-sale investments	25 436 976	(5 658 240)
Reclassification adjustment on realised gains	(2 735 157)	(17 707 671)
Impairment recognised against revaluation reserve	(1497 295)	(500 000)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**182 486 320**	**14 736 794**

STATEMENT OF CHANGES IN MEMBERS' FUNDS AND RESERVES

FOR THE YEAR ENDED 31 DECEMBER 2016

	Accumulated funds	Revaluation reserve	Available-for-sale fair value reserve	Total members' funds
	R	R	R	R
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**
Net surplus for the year	161 281 796	-	-	161 281 796
Derecognition of revaluation reserve	-	(1 497 295)	-	(1 497 295)
Other comprehensive income	-	-	22 701 819	22 701 819
Fair value adjustment on available-for-sale investments	-	-	25 436 976	25 436 976
Realised gains on available-for-sale investments	-	-	(2 735 157)	(2 735 157)
Balance as at 31 December 2016	**1 244 243 611**	-	**88 873 860**	**1 333 117 471**

SOLVENCY RATIO

The solvency ratio is calculated on the following basis:

	2016	2015
	R'000	R'000
Total members' funds per statement of financial position	1 333 117	1 150 631
Cumulative losses on remeasurement to fair value of financial instruments and property and equipment included in accumulated funds	500	600
Balance at beginning of year	600	600
Unrealised loss on revaluation of investment property in the statement of comprehensive income.	(100)	-
Revaluation reserves	-	(1 497)
Available-for-sale fair value reserve	(88 874)	(66 172)
Accumulated funds as per Regulation 29	1 244 744	1 083 562
Gross contributions	4 630 884	4 236 652
Solvency ratio	**26,88%**	**25,58%**

OPERATIONAL STATISTICS PER BENEFIT OPTION

2016	Beat1	Beat2	Beat3	Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
Members at 31 December	5 703	23 579	7 186	5 574	28 577	10 403	6 238	3 221	3 588	872	94 941
Average number of members for the accounting period	5 647	23 108	7 170	5 617	28 802	10 533	6 278	3 296	3 732	903	95 085
Dependants at 31 December	6 065	24 850	7 673	6 263	40 712	9 008	6 419	1 973	2 386	222	105 571
Average number of dependants for the accounting period	5 962	24 359	7 526	6 312	40 767	9 232	6 527	2 070	2 514	241	105 509
Average beneficiaries for the accounting period	11 608	47 467	14 696	11 929	69 569	19 765	12 805	5 366	6 246	1 143	200 595
Ratio of average dependants at 31 December	1,06	1,05	1,05	1,12	1,42	0,88	1,04	0,63	0,67	0,27	1,11
Average age of beneficiaries for the accounting period	33,99	28,76	36,39	42,82	33,04	50,51	50,13	59,51	41,00	74,55	36,97
Ratio of beneficiaries older than 65 years	6,51%	2,88%	12,10%	17,12%	6,84%	31,74%	31,36%	45,76%	18,48%	85,28%	12,63%
Risk contribution per average member per month	1 898	1 844	2 766	4 326	3 488	5 079	5 861	7 810	2 190	4 874	3 434
Risk contribution per average beneficiary per month	923	898	1 350	2 037	1 444	2 707	2 874	4 797	1 308	3 848	1 628
Healthcare expenditure per average member per month	1 495	1 506	2 337	4 275	2 837	4 874	5 143	7 667	2 023	5 787	3 022
Healthcare expenditure per average beneficiary per month	727	733	1 140	2 013	1 175	2 598	2 522	4 709	1 209	4 568	1 433
Relevant healthcare expenditure as a percentage of risk contributions	78,8%	81,7%	84,5%	98,8%	81,3%	96,0%	87,7%	98,2%	92,4%	118,7%	88,0%
Non-healthcare expenditure per average member per month	327	332	336	315	353	330	349	320	322	284	337
Non-healthcare expenditure per average beneficiary per month	159	162	164	148	146	176	171	197	192	224	160
Non-healthcare expenditure as a percentage of risk contributions	17,22%	18,03%	12,16%	7,27%	10,13%	6,50%	5,96%	4,10%	14,69%	5,82%	9,82%

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%

OPERATIONAL STATISTICS FOR THE SCHEME

	2016	2015
Average accumulated funds per average member at 31 December	13 369	11 636
Average accumulated funds per average beneficiary at 31 December	6 333	5 512
Return on investments as a percentage of investments	5,96%	6,31%
Administration and other operative expenses as a percentage of gross contributions	6,63%	6,53%

PERSONAL MEDICAL SAVINGS ACCOUNT TRUST MONIES

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 2016 and 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 still awaiting the outcome of the court judgement which will clarify the position around this 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 2016
	R
Cash and Cash Equivalents	
Current accounts	123 308 771
Available-for-sale Investments	
Money Market funds	443 013 903
	566 322 674

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

1. **Non-compliance with Section 26(4)(a) of the Medical Schemes Act - Effect of registration**
   Section 26 (1)(c) and (4)(a) state that no amount shall be debited against the bank account of the Scheme unless such payments are benefits payable under the rules of the Scheme.

   The Scheme rules dictates where a member can only claim once per beneficiary every 120 days for specific tariff codes. There was an instance where the Scheme paid an applicable tariff code for the member twice within in a 120 day period. The Scheme incorrectly paid a claim twice this contravening its own rules, resulting in the overstatement of claims.
   This event was an isolated case due to human error and the Scheme does not perceive this to be a future risk based on the controls in place. The Scheme operational system is designed in such a manner to block and reject specific tariff codes that cannot be charged twice within a set period.

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.

3. **Non-compliance with Regulation 28(2) of the Medical Schemes Act - Remuneration paid to brokers more than the prescribed statutory limit**
   Regulation 28(2) of the Act prescribes the commission limits that are payable to brokers. The maximum allowable commission is 3% of member contributions.

   The Scheme concluded a fixed broker-fee agreement with a brokerage representing an employer group. 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 R5 126 and the brokerage has been invoiced accordingly to refund the overpayment to the Scheme.

4. **Non-compliance with Regulation 28(7) of the Medical Schemes Act - Broker services and commission**
   Regulation 28(7) states that "a medical scheme shall immediately discontinue payment to a broker in respect of services rendered to a particular member if the medical scheme receives notice from the member (or the relevant employer, in the case of an employer group), that the member or employer no longer requires

the services of that broker"
There was an instance where the effective date for a broker change was 01 January 2016. The change was effected on the system on 01 April 2016, resulting in commission being paid to an incorrect broker for the period January to March 2016. Commission was only clawed back in April 2016 and paid to the new broker for the period January to April 2016.
The mandates to resign or transfer a member to a new broker are sometimes received much later than the effective date as stipulated in such mandates. The system is however programmed to claw back and rectify commissions paid in error and pay it to the right broker once the system is updated with the mandate.

5. 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 five benefit options of the Scheme, namely Beat4, Pace2, Pace4, Pulse1 and Pulse2 made a net healthcare deficit.

After accounting for other income Beat4, Pace2, Pace4, Pulse1 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. Non-compliance with Section 35(6)(a) of the Medical Schemes Act - Borrowings

Section 35(6)(a) states that "A medical scheme shall not encumber its assets." Bestmed registered as a financial service provider with the Financial Services Board (FSB). Registration number 44058. The FSB required a guarantee of R1 million in terms of section 8(7) of the FSB Board notice 106 of 2008.

In addition, the terms of the Scheme building lease agreement required a guarantee to an amount of R2,3 million. The Schemes' banker issued these guarantees as part of the Schemes' facilities and required no additional security.

The Scheme has not obtained exemption from CMS for the guarantees. Application for the FSB guarantee exemption was lodged with the Council in October 2016. The Scheme is in the process of applying for exemption on the lease agreement guarantee.

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

"Section 35(8)(a) of the Act states that "A medical scheme shall not invest any of its assets in the business of or grant loans to (a) An employer who participates in the medical scheme or any administrator or any arrangement associated with the medical scheme; (b) any other medical scheme; (c) any administrator and (d) any person associated with any of the above."

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. The Council for Medical Schemes has not granted the Scheme an exemption from section 35(a) of the Medical Schemes Act. The scheme is in the process of making an application for an exemption from section 35(a) to the CMS.

The scheme has obtained exemption from the Council for section 35(c), investments portfolio held by administrators.

8. Non-compliance with Section 59(2) of the Medical Schemes Act - Claims not paid within 30 days

Section 59(2) of the Medical Schemes Act state, that "claims submitted to the scheme should be paid out within 30 days after the day on which the claim was received".

"Claims received at Bestmed are assessed, rejected, paid or pended within 30 days of receipt. There are various reasons that a claim will be pended where further information, assistance or motivation is required. All related claims will pend along with the authorisation and will be paid or rejected once the authorisation is finalised, pending the outcome."

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

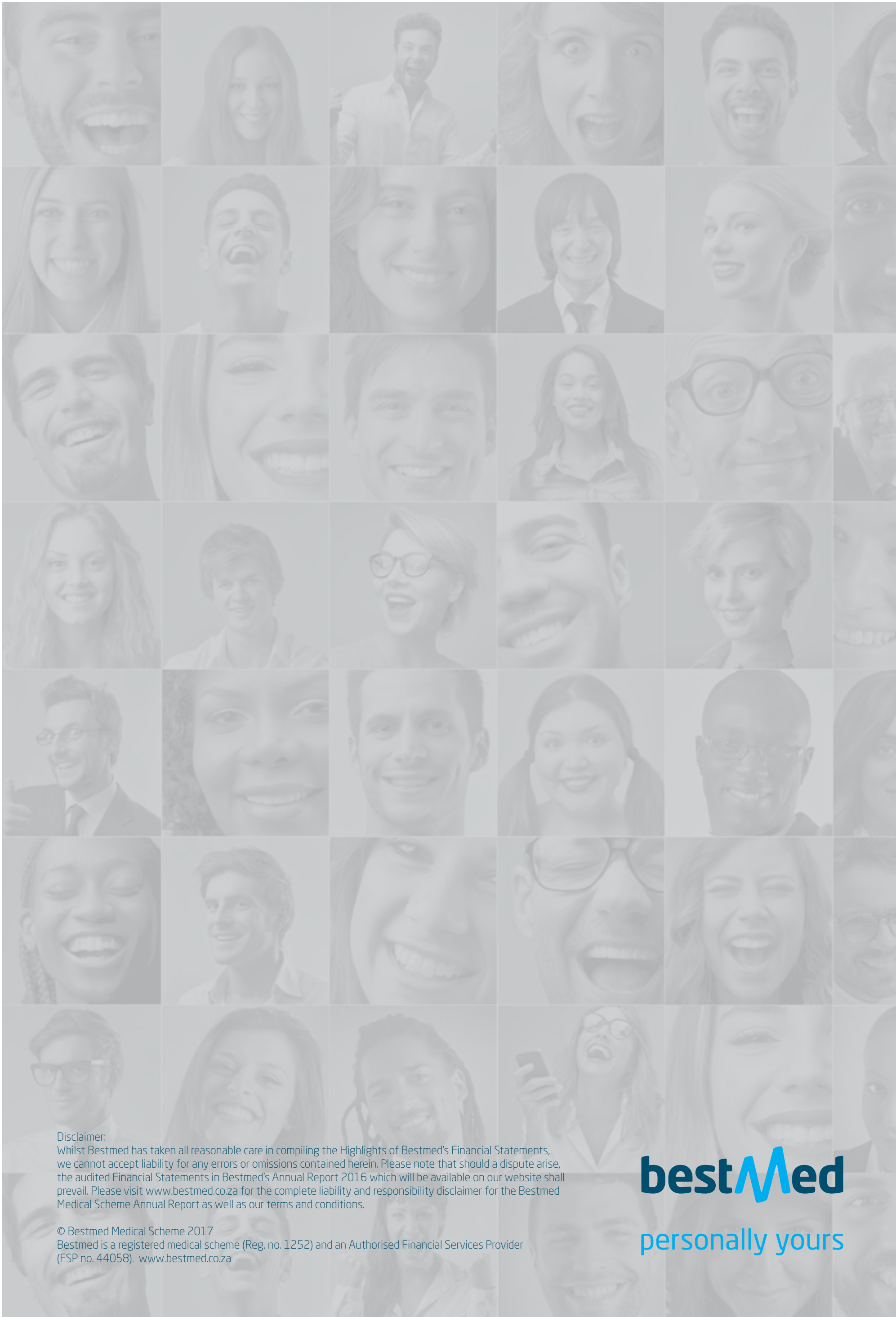
2013 Council for Medical Scheme (CMS) Directives

In January 2015, Bestmed launched an appeal in terms of Section 50 of the Medical Schemes Act to verify the legality of the decision of the CMS, taken on 29 October 2014, to remove nine of its trustees in terms of Section 46 of the Medical Schemes Act. The appeal was dismissed on technical points in limine raised by the CMS and the decision of the CMS (removing Bestmed's former trustees) was confirmed. The Board of Trustees have decided not to proceed with a High Court review and, this process is now concluded.

Council for Medical Scheme Investigation

During the 2016 financial period and following the forensic investigation carried out by KPMG in 2015, the Council for Medical Schemes (CMS) decided to initiate a further inspection in terms of section 44 of the Medical Schemes Act against Bestmed. The inspection is primarily based on the same aspects as the 2015 forensic investigation. At the end of the 2016 financial year, the inspection by the CMS appointed inspector was still underway and no date has been provided for its finalisation and/or conclusion.

ARRHYTH RECALL
ALARM HISTORY
ATTACH ELECTRODES
11:28
11894
TRUSTED
CONTRACTED
PREFERRED
SERVICE
PROVIDERS
SYS
(MEAN)
RR(IMP)



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 2016 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 2017
Bestmed is a registered medical scheme (Reg. no. 1252) and an Authorised Financial Services Provider (FSP no. 44058). www.bestmed.co.za