CONTENTS
SOUTH AFRICAN POLICE SERVICE MEDICAL SCHEME

NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the South African Police Service Medical Scheme (Polmed) will be held at the Jack Botes Hall, c/o Church and Bodenstein Streets (off Thabo Mbeki Street, towards Lebowakgomo), Polokwane, Limpopo at 08:00 for 10:00 on Thursday, 16 July 2015. **Members are therefore invited to attend. Kindly bring your identification along, e.g. Polmed membership card and identity document or driver's license.**

AGENDA

1. Opening and Welcome
2. Constitution
3. Approval of Agenda
4. Introduction of Board of Trustees and Officials
5. Confirmation of Minutes – 17 July 2014
6. Matters Arising from Previous Minutes:
   - 6.1 Motion 1: Rule 18
   - 6.2 Motion 2: Fit and Proper Trustees
   - 6.3 Motion 3: Visibility of Board Members at Events
7. Integrated Report – 2014
8. Trustee Remuneration
   - 8.1 Trustee Remuneration Policy
   - 8.2 Trustee Remuneration 2015/2016
9. External Auditors Report
10. Consideration of Financial Statements
11. Appointment of External Auditors
12. Other Matters of Which due Notice has been Given
13. Trustee Elections Results
14. Closure

MINUTES OF THE ANNUAL GENERAL MEETING (AGM)

HELD ON THURSDAY, 17 JULY 2014 AT 10:00 AT THE SINODALE CENTRE, 345 BURGER STREET, PIETERMARITZBURG, KWAZULU-NATAL PROVINCE

1. OPENING AND WELCOME

The Chairperson welcomed all and thanked them for their attendance. Pastor Duma was welcomed to the meeting. He greeted everyone and congratulated all Moslem members during their fasting period. Pastor Duma opened with a message from Proverbs 17:22, Jeremiah 33:6 and Jeremiah 13:17. The Chairperson welcomed Genl Ngembe who in turn welcomed the National Commissioner Genl Phiyega, her delegates and everyone attending the meeting. Genl Phiyega addressed the meeting and noted that Polmed's health was SAPS's health. Polmed was appreciated for their efforts, ensuring that Polmed was healthy, for SAPS to be healthy. Everyone was recognised and thanked for their attendance. The importance of the continuation of public and private partnerships was noted. Genl Phiyega urged everyone to build on the professional relationships. Members were encouraged to make use of all available opportunities for early disease identification. The efforts of the BoT were acknowledged, ensuring the health of all Polmed members. The success of SAPS and Polmed could only be attributed to an integrated approach being adopted and implemented. Members were encouraged by Genl Phiyega to attend all wellness events. The Chairperson thanked Genl Phiyega for her address and also emphasised the importance of an integrated approach and consolidated efforts between all stakeholders.

2. CONSTITUTION

The Chairperson confirmed that 206 members were currently present. The meeting was therefore duly constituted, because a quorum was present. She welcomed the members of the Limpopo Continuation Association.

3. APPROVAL OF AGENDA

The Chairperson proposed that item 6 be dealt with under item 7.

Mr Mbolekwa moved for the adoption of the agenda. The adoption was seconded by Mr Ngwenya.

4. INTRODUCTION OF BOARD OF TRUSTEES AND OFFICIALS

The Chairperson, Ms Shezi, introduced herself to the meeting. The BoT members then introduced themselves, being: Mr Khumalo, Ms Tlhoaele, Ms Jafta, Ms Koena, Mr Mazibuko, Mr Nsele (Deputy Chairperson), Mr Mxenge (PO), Mr Serfontein, Dr Geldenhuys, Mr Bester and Ms Molefe. The two Trustees whose terms of office ended were Mr Serfontein and Mr Bester. Trustees not able to attend were Mr Schutte and Ms Marekwa.

5. CONFIRMATION OF MINUTES – 19 JULY 2013

The minutes of the meeting of 19 July 2013, included from pages 3–11 in the Annual Report. They were adopted as a true reflection of the last AGM, subject to the following amendment:

Page 6, item 6.9, third paragraph to be amended to read as follows: It was confirmed that **Polmed Property Investments (Pty) Ltd (PPI)** was registered as part of the Polmed investment portfolio in terms of Regulation 30 of the Medical Schemes Act.

Mr Mbolekwa moved for the adoption of the minutes which was seconded by Mr Malete.

No matters arose from the previous minutes, because all the matters were duly addressed.

6. REPORTS

6.1 Chairperson

This item would be dealt with under the integrated report, in line with King III reporting and would be removed from the agenda for 2015.

6.2 Principal Officer

This item would be dealt with under the integrated report, in line with King III reporting and would be removed from the agenda for 2015.

7. INTEGRATED REPORT – 2013

The Chairperson noted that the Report was published annually and covered the period 1 January to 31 December 2013. The reporting principles that have been applied in this report were consistent with the requirements of the Council for Medical Schemes and those provided in the King III Code, as appropriate to medical schemes. Referring to the organisational overview, business model and governance structure, the Chairperson noted that the Scheme is a non-profit, closed medical scheme registered and domiciled in the Republic of South Africa in terms of the Medical Schemes Act. The Scheme is administered by Metropolitan Health Corporate (Pty) Ltd. The group comprises of Polmed and Polmed Property Investments (Pty) Ltd, a wholly-owned entity established as part of the Scheme's investment portfolio. Only employees of SAPS who have been appointed in terms of the Police Act are eligible to join as members of the Scheme. The Chairperson noted the two benefit options in the Scheme. There were more members who moved to the Higher Plan and investigations would be conducted as to the reason for the migration between the two plans. She noted the importance that members should understand their benefits.

The Chairperson took the meeting through the business model, item 1.2.

Referring to the governance structure, the Group is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders. 50% of the Trustees are elected by members of the Scheme, while another 50% are designated by the Employer. The Board of Trustees has adopted the principles of Corporate Governance as contained in the King III report. The Chairperson noted that the Group maintains internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements.

Referring to the Board Committees, the Chairperson noted that the HR and Remuneration Committee's function is to recommend to the Board of Trustees a remuneration strategy for the Group and to ensure that Trustees and personnel are adequately remunerated for their contribution to the Group's operating performance. The committee is mandated to make regular comparisons in the industry.

The primary responsibility of the Clinical Governance Committee is to assist the Board of Trustees in carrying out its duties relating to the benefit design process of the Scheme.

The Chairperson noted the responsibilities of the Investment Committee which is to make recommendations to the Board of Trustees regarding the investment strategy of the Scheme.

The PO extended condolences to the families of everyone in the Scheme who passed away. He specifically referred to Brenda Xamsane, a Polmed employee, and Dr Geldenhuys's father.

Referring to the Communication Report, the PO thanked members who made it possible for Polmed to reach almost 48,000 members during Polmed area visits and wellness events. Members were invited to attend all wellness days.

The PO noted that, at the end of December 2013, R21,145,408 had been recovered by the Fraud Department. Members were encouraged to assist Polmed in fraud prevention.

The PO raised his gratitude toward Brigadier van Rensburg and Genl Ngembe, who ensured that SAPS members could be part of the AGM. Ms Khauoe and her Metropolitan team and all the representatives from the service providers were thanked for their support. The PO encouraged all members to do the screening available during the day.

8. CONSIDERATION OF FINANCIAL STATEMENTS (ITEM 9)

Mr Bezuidenhout referred the meeting to pages 32 and 33 for the financial position. It was noted that the majority of assets are investments. Investments increased from R2,997bn in 2011 to R3,836bn at the end of December 2013.

Mr Bezuidenhout referred the meeting to the investment portfolio and noted the diversity of investments. Members were assured that Polmed had adequate insurance to cover for the risk of equity investments. Bond investments were noted at 25% and a total of 3% in direct and indirect property. Mr Bezuidenhout confirmed that Polmed was compliant with the prescribed regulations regarding the investment portfolio. The bulk of investments is required to be in cash, which was at 42% at the end of December 2013.

Referring to the building in Polmed Property Investments (Pty) Ltd, Mr Bezuidenhout noted that the building was currently valued at R64,5m. A positive operational result of R3,9m was also noted.

Referring to the funds and liabilities, the accumulated funds were noted at R3,495bn. If the monthly value of claims paid, is taken into consideration, the meeting was informed that the R3,495bn would only be sufficient for six months' claims. To secure sustainability in the Scheme, it is therefore inevitable that sufficient reserves are available.

Mr Bezuidenhout noted that 77% of contributions were received from the Employer. The Employer increase for 2013 was noted at 9.7% and that of the member at an average of 8.2%.

Referring to the healthcare expenses, Dr Gama noted a higher percentage in claims from 2011 to 2013. Claims were less in 2010, because of benefit changes. The 6% increase in claims from 2011 to 2012, was because members were more aware of what they could claim for, after campaigns by the Communication Department. Dr Gama noted that claims should not be more than 93%, because then reserves would need to be utilised. The importance of primary healthcare was noted, to ensure utilisation levels did not increase. Dr Gama noted that more child dependants were registered compared to new members. Even though Polmed performed within the target, a different strategy was required for 2014 going forward. It was therefore very important for members to manage their healthcare benefits properly.

Mr Bezuidenhout referred to the healthcare spend and noted that 32% was for hospitals, 20% to specialists, 19% to medicine, 12% to GPs and 18% to physiotherapists, etc. For the Scheme to be sustainable, this healthcare spend needs to be changed.

The fraud recoveries for 2013 were again noted at R21,145m.

The bulk of non-healthcare costs was allocated to administration. Managed healthcare was implemented to curb expense growth as much as possible. Impairment was noted as doubtful debts, which was low for 2013.

Mr Bezuidenhout noted the exceptional performance from investment income. It compared very well against the asset management fees.

The solvency for 2013 was noted at 48.66%, but needed to be monitored diligently by the BoT. If the claims ratio increased the solvency decreased. Polmed's non-healthcare cost ratio was noted at 6.42% compared to the CMS guideline of 10%. The investment return was noted at 10.29% compared to a target of 9.3%.

The executive personnel and HoDs were introduced to the meeting by the Chairperson, being Mr Mxenge (PO), Dr Gama, Mr Bezuidenhout and Mr Sadiki.

Mr Ngwenya thanked management for the presentation and commended Mr Bezuidenhout on the improvements. Referring to the investment portfolio, Mr Ngwenya enquired about the exemptions noted. Referring to Polmed's growth, he further enquired how this growth in the Scheme would be utilised for improving benefits. Mr Ngwenya's last enquiry was how stakeholders would be involved, on the National Commissioner's level, to ensure that the BoT members are appropriately directed to become healthy members.

Referring to the enquiry on how the growth would ensure improvement in Polmed, the Chairperson noted the importance of members understanding the benefits, because it has a direct impact on growth. The importance of primary healthcare was again emphasised to ensure members are exposed to the available benefits. Registering for chronic benefits was used as an example. The Chairperson referred

the meeting to page 39 of the Annual Report and noted the number of members and beneficiaries at year-end. Members were encouraged to adopt a healthier lifestyle. Mr Bezuidenhout noted that, to eliminate recurring expenses, a strategy has to be developed to change the delivery model, which costs would be paid from the reserves.

Referring to Mr Ngwenya's enquiry about non-compliance, Mr Bezuidenhout responded that it was an industry occurrence, referring to Section 35(8). These investments were, however, important for diversity in the investment portfolio. Listed investments such as SAB Miller and British American Tobacco were, however, excluded from the portfolio.

Mr Ngwenya proposed that SAPS, Polmed and the service providers engaged to ensure a trend is identified and ensure members are reached and educated.

Genl Mbekela commented that members needed to be pro-active in ensuring that the claims growth does not increase. Prevention is better than cure, which requires members to ensure a healthy lifestyle in all aspects.

The National Commissioner requested members to assist the Scheme by strictly monitoring their utilisation, to ensure the reserves would not be used. The future of Polmed depended on the reserves. Sick leave tendencies and utilisation therefore had to be scrutinised.

The Deputy Chairperson, Mr Nsele, encouraged members to obtain medical advice in advance before visits to specialists and/or hospitalisation would be necessary.

9. EXTERNAL AUDITORS' REPORT (ITEM 8)

Ms Chagonda from KPMG presented the external audit report to the meeting. She confirmed that the financial statements and internal controls of Polmed had been audited as at 31 December 2013. Ms Chagonda was pleased to report that they had issued an unqualified audit report. The financial statements were found to be free from material misstatements at 31 December 2013 and to fairly represent the financial performance and cash flows of Polmed. Internal controls were tested and no control deficiencies were found. Three areas of non-compliance, in terms of the Medical Schemes Act, were found during the audit, as listed on page 38 of the Annual Report. Management has given assurance that exemption has been obtained for one item of non-compliance. The other two items of non-compliance is common in the industry and no specific exemption is required. Ms Chagonda commended management for their efforts.

10. APPOINTMENT OF EXTERNAL AUDITORS

Mr Brown, Chairperson of the Audit and Risk Committee, noted that this committee is appointed by the BoT in terms of the Medical Schemes Act. The Committee consists of two BoT members and three completely independent members. It is important to note that all three independent members are independent from the BoT. The Audit and Risk Committee interacts with the External Auditors and has to ensure they are independent. Mr Brown noted that the Committee was satisfied with the internal controls during the year. The complete Annual Financial Statements have been reviewed by the Audit and Risk Committee and is available to any member who wants to review it. Mr Brown noted that risk was being managed by the Scheme and the committee was satisfied that a proper risk management process was conducted. In terms of King III, the Integrated Report requires the Scheme to also address performance against strategic objectives, as presented on page 26 of the Annual Report. The future performance objectives have also been reviewed by the Committee. The Audit and Risk Committee has to ensure that management and the BoT have entered into a proper process of combined assurance.

The Audit and Risk Committee recommended the following for approval:

i. Acceptance and approval by the AGM of the Annual Financial Statements.
ii. Mr Brown confirmed that the Audit and Risk Committee was satisfied with the performance of KPMG and recommended their re-appointment as External Auditors for 2014.

Mr Ngwenya enquired whether the extract of the Annual Financial Statements, as presented in the Annual Report and the extract of the unqualified report of KPMG, was a principle of King III. Mr Brown responded that the decision to present only highlights was in terms of the Medical Schemes Act, which was decided by the BoT. Polmed has complied with the minimum requirements as per Circular 6 from the CMS. Mr Brown informed the meeting that the complete Annual Financial Statements are available on request, because it would be too expensive to include the complete document in the Annual Report.

On request of Mr Ngwenya that the AGM be provided with the unqualified report by KPMG, the Chairperson commented that this would be noted.

On request of Mr Duma that the Trustees' consideration had to be decreased, the Chairperson explained that not all BoT members were from the same province. She also referred to the explanation in the Annual Report.

The approval of the Annual Financial Statements was proposed by Mr Mbolekwa and seconded by Mr Simelane.

The appointment of KPMG was proposed by Mr Ngwenya and seconded by Mr Mbolekwa.

11. OTHER MATTERS OF WHICH DUE NOTICE HAS BEEN GIVEN

Motion 1 was read to the meeting:
"The motion that I need the AGM to visit is that there is the problem in relation to the appointed board of trustees as the elected one do comply with equity as per the rules of the scheme but it appears that the appointed one does not comply even with representivity.

Solution required is the AGM must address this problem because it seems as if the employer is disrespectful of the rules and therefore the AGM must address this soon and look at what are the rules saying."

The mover of this motion, Mr Simelane, noted that this referred to Rule 18.2.1 and 18.2. Ms Molefe responded that the BoT was well presented in terms of Rule 18.2, in terms of race and gender. Currently BoT consisted of 50% male and 50% female members. In terms of race, the BoT currently consisted of 71% African and 29% White members. The rule prescribes 60% male and 40% female, but was amended to a minimum requirement of at least 40% female members. The designated members were currently 43% female and 57% male. Mr Simelane requested that the AGM Task Team had to present recommendations at the next AGM to ensure designated members also complied with the rule. Mr Mbolekwa in turn proposed that safety mechanisms be implemented to always ensure adherence to this rule in future. The National Commissioner responded that further work by the AGM Task Team was not necessary, as the Commissioner would always ensure equity compliance, but it was important that skilled people be designated as BoT members. On enquiry of Mr Govender about the Indian representation on the BoT, Ms Molefe responded that, in terms of Rule 18.2, Black includes Coloured and Indian people. All comments were noted and would be dealt with by the AGM Task Team.

Motion 2 was read to the meeting:
"The issue of fit and proper candidates who are eligible to stand for election as board members might be current members or continuation members if found to be not fit to hold the office the AGM must address this matter and give guidance as to how must it be approached."

Mr Simelane elaborated on this motion and enquired what happens if a BoT member has been elected and then investigated due to irregularities. Mr Mazibuko responded that Polmed adhered to the principles of King III and the matter of fit and proper has been incorporated in the Polmed rules. This was, however, a valid motion and Mr Mazibuko confirmed that the BoT decided to tighten the investigations of members. This would be dealt with by an independent entity. New members would be assessed before their election or designation and current members would be assessed annually. This matter would be dealt with at the next BoT meeting.

Motion 3 was read to the meeting:
"Scheme activity how the board should they contribute to the success of the activity and as well as visibility of board members in the activities in promotion of the scheme."

Mr Simelane noted that this motion referred to health days and enquired how the BoT members participated in their promotion. Mr Bester responded that the BoT decided to immediately act on this motion and ensure active involvement at their work place. It is, however, a concern that work already done by the Communication Department might incur duplication of work and costs. The AGM raised the concern that more than one BoT member should be visible at events. At the next BoT meeting members would be deployed to provinces to ensure they are actively involved. The Chairperson noted that the AGM Task Team would deal with this matter to ensure BoT members know in which capacity they should be present at health days to ensure no duplication with the Communication Department.

12. TRUSTEE ELECTION RESULTS

Mr Thobile Thomas from Elexions informed the meeting of the outcome of the election process. The 2014 election was for one serving member and one continuation member. In terms of Rule 18.2, only white males were eligible to be elected. The election process was noted as follows:

i. Candidate nomination;
ii. Pre-AGM voting at colleges and cluster stations; and
iii. AGM voting.

Four candidates stood for the 2014 elections and the number of votes were as follows:

Continuation members:
WV Meyer – 1,597 votes
GJ Serfontein – 1,974 votes

Serving members:
PH Bester – 1,495 votes
RCJ van Wyk – 2,067 votes

Mr GJ Serfontein was therefore elected as continuation member and Mr RCJ van Wyk was elected as serving member.

The Chairperson noted that Mr Serfontein would be serving for another three years as BoT member. The Chairperson thanked Mr Bester for his positive contribution to Polmed and the AGM applauded him. Mr van Wyk would be communicated with accordingly.

13. CLOSURE

Mr Nsele announced that the 2015 AGM would be held in Limpopo. The date would be duly communicated.

The Chairperson thanked the National Commissioner for her attendance and contributions. The AGM was thanked for their time and participation. There being no further business, the meeting was adjourned at 13:30.

_____ _____

Date **Chairperson**

INTEGRATED REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

REPORT PROFILE

This report is published annually and covers the period 1 January to 31 December 2014.

The reporting principles that have been applied in this report are consistent with the requirements of the Council for Medical Schemes and those provided in the King III Code, as appropriate to medical schemes. The principles relating to financial statements are in terms of IFRS and the Medical Schemes Act.

The Board of Trustees acknowledges its responsibility to ensure the integrity of this report. The Board has accordingly applied its mind to this report and in the opinion of the Board the report addresses all material issues and presents fairly the integrated performance of the Group and its impacts. The report has been prepared in line with best practice.

1. ORGANISATIONAL OVERVIEW, BUSINESS MODEL AND GOVERNANCE STRUCTURE

1.1 ORGANISATIONAL OVERVIEW

The Scheme is a non-profit, closed medical scheme registered and domiciled in the Republic of South Africa in terms of the Medical Schemes Act, 131 of 1998, as amended, the Act (registration number: 374).

The Scheme is administered by Metropolitan Health Corporate (Pty) Ltd. The Group comprises the South African Police Service Medical Scheme (Polmed) and Polmed Property Investments (Pty) Ltd, a wholly-owned entity established as part of the Scheme's investment portfolio (registration number: 2010/018469/07).

Only employees of SAPS who have been appointed in terms of the Police Act are eligible to join as members of the Scheme.

Registered office address and postal address

Crestway Office Park - Block A
20 Hotel Road
Persequor Park
Lynwood
0081

PO Box 14812
Hatfield
0028

Benefit options within the Scheme

In terms of Polmed's rules, the Scheme offered two options during 2014:

- Higher Plan; and
- Lower Plan.

1.2 BUSINESS MODEL

Policing is a psychologically stressful occupation filled with danger, high demands, human misery and exposure to trauma and death. Research undertaken has identified connections between the daily stresses of police work and higher risk of long-term physical and mental health effects. It is accepted that there are general health disparities between police officers and the general population. Police officers may retire from the service due to medical boarding at any stage of their lives. The continuation member profile illustrates this phenomenon. Specific targeted interventions are therefore necessary to help police officers deal with this difficult and stressful occupation.

The South African Police Service Medical Scheme (Polmed) was established to provide employees of SAPS appointed under the Police Act with affordable access to quality healthcare. In this regard, the Scheme has, over time, collected significant clinical data in order to better understand its members' unique profile and has responded by developing disease management programmes that are member-centric. These programmes require innovative benefit design solutions and simple, yet effective delivery techniques to manage underlying conditions. Prolonged Care, Homecare+ and the psycho-social programmes are but three of the initiatives employed by the Scheme to manage stress-related and other conditions prevalent in the Scheme's population. Psychological debriefing following a traumatic incidence is a unique need peculiar to the occupation, thus differentiating it from the needs of the general public.

Polmed acknowledges that stress may manifest in ways that can hurt loved ones and as such we have developed disease management programmes that are proactive and relevant for the broader family unit, thereby covering the needs of all beneficiaries on the Scheme.

The following business model has been adopted by the Group:

- Employer contributions are calculated using the aggregate growth model negotiated by employee group representatives.
- Employee contributions are calculated to be affordable.
- The net healthcare result is targeted at a break-even level over time.
- Tailor-made benefits are provided to all members.
- Non-healthcare cost is managed at set targets.
- Optimal level of return on investment portfolio on a long-term basis at specified risk parameters.
- Reserve levels to meet long-term risk.

1.3 GOVERNANCE STRUCTURE

The Group is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders. 50% of the Trustees are elected by members of the Scheme, whilst the other 50% are designated by the Employer.

The Scheme appointed Metropolitan Health Corporate to assist with day-to-day operations. The Board of Trustees meets regularly and monitors the performance of the Administrator and other service providers. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive.

The Board of Trustees has access to the advice and services of the Principal Officer and, where appropriate, may seek independent professional advice at the expense of the Group.

The Board of Trustees has adopted the principles of Corporate Governance as contained in the King III Report.

The Group maintains internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability for its assets adequately. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties. A formal internal audit function exists, with regular reporting to the Audit Committee.

No event or item has come to the attention of the Board of Trustees that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review.

The Group's ethical values are a beacon of light that guides the Trustees and employees in their interactions with members, colleagues, business partners and society. The ethical values are:

- respect;
- ubuntu; and
- integrity.

The Trustees and employees build trusting relationships with all stakeholders they engage with by living up to these values.

1.3.1 BOARD COMPOSITION

The Board of Trustees consists of fourteen members:

- seven Trustees who are designated by the National Commissioner; and
- seven Trustees who are elected through an election process conducted and overseen by an independent body and must include two continuation members.

The Board of Trustees must take all reasonable steps to ensure that its composition broadly mirrors the composition of the membership of the Scheme as far as race and gender are concerned.

For the purposes of these rules it is accepted that the membership of the Scheme consists of:

- 60% male members and 40% female members; and
- 70% black members (which include coloureds and Indians) and 30% white members.

The Board of Trustees must endeavour to have one black member and one white member elected as continuation members of the Board and that one of the two is female and the other male.

Designated by the National Commissioner

- N Mazibuko — Resigned on 31 October 2014
- T Geldenhuys
- E Khumalo
- A Mofomme — Resigned on 25 June 2014
- S Schutte
- A Shezi — Chairperson
- O Tlhoaele

Elected members

- P Bester — Term ended 17 July 2014
- N Jafta
- D Koena
- G Marekwa
- I Molefe
- T Nsele
- G Serfontein
- R van Wyk — Appointed on 17 July 2014

The roles of the Chairperson and the Principal Officer are separate. The Chairperson, who has no executive functions, meets periodically with the Principal Officer to monitor progress and discuss relevant business issues.

All Trustees have the appropriate knowledge and experience necessary to carry out their duties, with each actively involved in the Group's affairs.

A minimum of six ordinary Board meetings are held with additional or special meetings called where circumstances necessitate. Proceedings are conducted efficiently and all appropriate matters are addressed at each meeting. One person does not dominate meetings; rather the interests of members remain at the core of all decisions.

Adequate Trustees' and Officers' insurance cover have been purchased by the Group to meet any material claims against the Board of Trustees.

1.3.2 BOARD COMMITTEES

Specific functions and responsibilities, as stipulated in the Board Charter, have been delegated to Board Committees, with defined terms of reference set out in their respective instructions. The current Board Committees are:

a. AUDIT AND RISK COMMITTEE

ROLES AND RESPONSIBILITIES OF THE AUDIT AND RISK COMMITTEE

Section 36(10) of the Act requires that the Board of Trustees establishes an Audit and Risk Committee.

It is important to note that the role of the Audit and Risk Committee is advisory and not executive.

AUDIT AND RISK COMMITTEE MEMBERS AND ATTENDANCE

The Audit and Risk Committee consists of the members listed hereunder and during the period under review, the Audit and Risk Committee had four meetings and appropriate feedback was provided to the Board of Trustees on matters that fell within the mandate of the Committee.

NAME OF MEMBER	EXPERTISE	NO OF MEETINGS	NO OF MEETINGS ATTENDED
Mr M Brown	Chartered Accountant*	4	4
Dr T Mtongana-Zote	Medical Doctor*	4	4
Adv N Tshombe	Advocate*	4	3
Ms I Molefe	Trustee	4	4
Mr G Serfontein	Trustee	4	4

*Independent members

The Principal Officer, Heads of Departments, the Risk Officer, the Fraud Manager, the Actuaries, the Administrators and the Internal and External Auditors are invited to attend all Audit and Risk Committee meetings and have unrestricted access to the Chairperson of the Committee.

AUDIT AND RISK COMMITTEE MEMBERS' REMUNERATION AND CONSIDERATIONS

NAME OF MEMBER	FEES FOR ATTENDANCE	DISBURSEMENT	TOTAL
Mr M Brown	R60,400		R60,400
Dr T Mtongana-Zote	R21,580	R752	R22,332
Adv N Tshombe	R17,170		R17,170
Ms I Molefe	R24,480		R24,480
Mr G Serfontein	R24,480	R2,112	R26,592
TOTAL	**R148,110**	**R2,864**	**R150,974**

DISCHARGING OF COMMITTEE RESPONSIBILITIES
The Audit and Risk Committee reports that it has adopted appropriate formal terms of reference as provided for its Audit Committee Charter and has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

INDEPENDENCE OF EXTERNAL AUDITORS
The Audit and Risk Committee is satisfied that the External Auditors were independent of the Scheme.

THE EFFECTIVENESS OF INTERNAL CONTROL
The systems of controls are designed to provide cost-effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed.

In line with the King III Report on Corporate Governance requirements, internal audit provides the Audit and Risk Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective action and suggested enhancements to the controls and processes.

The various reports of the Internal and External Auditors indicate that the overall control environment is working as intended.

The Audit and Risk Committee is satisfied that there are no weaknesses which constituted a material breakdown in controls. Management has implemented action plans and due dates to address those areas identified that require improvement.

EVALUATION OF ANNUAL FINANCIAL STATEMENTS
For the period under review, the Audit and Risk Committee is satisfied that it has carried out the mandate in accordance with its charter, good governance principles and the requirements of the Medical Schemes Act, as amended.

RECOMMENDATION FOR APPROVAL
Following our review of the Annual Financial Statements for the year ended 31 December 2014, we are of the opinion that, in all material respects, they comply with the relevant provisions of the Medical Schemes Act, as amended, and International Financial Reporting Standards and that they fairly present the results of the operations, cash flow, and the financial position of Polmed. We therefore recommend that the financial statements as submitted be approved.

b. HUMAN RESOURCE AND REMUNERATION COMMITTEE

This committee's function is to approve a broad remuneration strategy for the Group and to ensure that Trustees and personnel are adequately remunerated for their contribution to the Group's operating performance. In fulfilling its duties, consideration is given to industry and local benchmarks.

The committee consists of three Trustees:
- Dr Geldenhuys (Chairperson);
- Messrs Bester/van Wyk; and
- Ms Marekwa.

The Principal Officer attends all meetings and the Scheme provides secretarial services.

c. CLINICAL GOVERNANCE COMMITTEE

The primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the benefit design of the Scheme.

The committee consists of four Trustees:
- Mr Nsele (Chairperson);
- Mr Khumalo;
- Mr Mazibuko; and
- Ms Tlhoaele.

Senior Management, the Administrator, Managed Care Providers and the Actuaries of the Scheme attend all meetings and the Scheme provides secretarial services.

d. INVESTMENT COMMITTEE

The primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the investment policy of the Group.

The investment mandate of the committee is to ensure that:
- the Group remains liquid;
- capital is preserved as far as possible;
- the best possible rate of return is achieved for the determined tolerance to risk; and
- investments made are in compliance with the regulations of the Act.

The Group invested mainly in money-market, shares, bonds and enhanced cash instruments during 2014. The investment consultant's primary mandate during the year was to comply with prevailing legislative constraints and to ensure value retention while still ensuring growth. The funds are currently managed by the Board of Trustees in terms of an active investment policy.

The committee consists of four Trustees:
- Ms Mofomme (Chairperson – resigned 25 June 2014);
- Mr Schutte (Chairperson);
- Ms Koena; and
- Ms Jafta.

Senior management and an investment consultant attend all meetings and the Scheme provides secretarial services.

FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	GROUP	
	2014	2013
	R	R
Collective investments	2,069,640	104,117,920
Derivatives	-	(48,954,417)
Money-market investments	835,743,558	1,019,991,721
SA-listed bonds	1,453,250,935	1,146,532,943
SA-listed equities	1,027,157,981	1,364,310,236
	3,317,952,114	**3,585,998,403**

CASH AND CASH EQUIVALENTS

Cash on hand	480	508
Call accounts	519,756,592	160,983,806
Current accounts	201,852,256	59,399,576
Money-market instruments	112,319,862	29,977,648
	833,929,190	**250,361,538**

INVESTMENT INCOME

Dividend revenue	39,429,143	38,391,735
Interest on investments at fair value through profit or loss	169,909,278	148,614,249
Interest on cash and cash equivalents	36,646,743	20,165,666
	245,985,164	**207,171,650**

	GROUP	
	2014	2013
	R	R

OTHER REALISED AND UNREALISED GAINS AND LOSSES

Loss on disposal of property, plant and equipment	(276,726)	(5,036)
Realised gain on disposal of investments at fair value through profit or loss	148,236,221	56,434,732
Unrealised (loss)/gain on revaluation of investments at fair value through profit or loss	(65,821,394)	87 767 447
	82,138,101	**144,197,143**

During the course of 2014 the investment portfolio was re-balanced and as such R300m was realised from the equity portion of the portfolio. Most of the unrealised gains in the portfolio were realised leaving a trailing unrealised loss which would in the long run be converted to a positive gain. This resulted in the significant difference in realised gains/(losses) compared to the preceding year.

1.3.3 SCHEME EXECUTIVE PERSONNEL AND HEADS OF DEPARTMENTS

M Mxenge	Principal Officer (Executive Personnel)
TG Gama	Chief Operations Officer (Head of Department)
M Sadiki	Chief Corporate Services (Head of Department)
JH Bezuidenhout	Chief Finance Officer (Head of Department)

2. UNDERSTANDING THE OPERATING CONTEXT

2.1 IDENTIFYING MATERIAL ISSUES, IMPACTS AND RELATIONSHIPS

MATERIAL ISSUES AND IMPACTS

Prescribed Minimum Benefit (PMB) claims
The management of PMBs is an industry-wide challenge given that there is a broad view that medical schemes are compelled to reimburse providers at cost for the treatment of PMB conditions. If this view were to be upheld, it would cast into doubt the sustainability of a number of schemes in the industry. Polmed has sought to mitigate PMB risk in a number of ways.

Firstly, it has introduced a PMB management process that requires the billing behaviour of the claiming provider to be ascertained in order to determine the reimbursement level. Where it is found that the provider is consistent in billing between PMB and non-PMB conditions, the provider is reimbursed at cost. Where the billing behaviour is found to be inconsistent, further investigations are conducted to determine the reimbursement applicable to affected claims.

Secondly, the Scheme has also introduced a Specialist Network with effect from 1 January 2015, which has had the effect of capping the Scheme's exposure to PMBs by setting the reimbursement tariffs upfront. This has also had the effect of improving the member and provider experience in dealing with the Scheme, as tariffs are negotiated at the time that the provider joins the network and is therefore visible to all stakeholders. This has the effect of reducing the re-processing of claims and member and provider frustration.

RELATIONSHIPS
The following entities have relationships with the Group:

The member
- Serving members and continuation members

The Employer
- South African Police Service

Associations and Employee Representatives
- Labour representatives
- Association representatives

The Administrator
- Metropolitan Health Corporate (Pty) Ltd

Managed care services
- Metropolitan Health Risk Management (Pty) Ltd
- Netcare 911 (Pty) Ltd
- Preferred Provider Negotiators (Pty) Ltd
- Fresenius Kabi South Africa (Pty) Ltd
- Designated Service Providers (Pharmacies)
- GP Network
- Hospital Network (Lower Plan members)
- National Renal Care

Bankers
- Standard Bank

Investment Consultants
- Collective Endeavours Consulting (Pty) Ltd

Treasury/Investment Managers

Standard Bank	Fund Accountants
Taquanta Asset Managers (Pty) Ltd	Cash Managers
Stanlib Asset Management Limited	Short-term Bond Managers
Sanlam Investment Managers	Long-term Bond Managers
Coronation Fund Managers	Active Equity Managers
Mazi Capital (Pty) Ltd	Passive Equity Managers

Actuaries
- NMG Consultants and Actuaries (Pty) Ltd

External Auditors
- KPMG Inc

Internal Auditors
- SizweNtsalubaGobodo Inc
- MHG Independent Internal Audit Division

MEMBER EDUCATION AND AWARENESS

The business plan of the Scheme determined that at least 45,000 members had to be reached during 2014. A communication plan and strategy was implemented in support of the objectives, as set out in the plan.

The Communications Team undertook area visits during the past year and reached 36,352 members during these visits.

Wellness events, together with flu vaccine campaigns, were also hosted during which 25,722 members were screened for:
- HIV/AIDS (voluntary counselling and testing);
- blood pressure;
- cholesterol;
- glucose; and
- BMI levels.

14,187 flu vaccines were also administered during the period under review. A total number of 62,074 members were reached during the past year, which implies that the target, as set out in the plan, was in fact exceeded.

2.2 IDENTIFYING RISKS AND OPPORTUNITIES

MANAGEMENT OF INSURANCE RISK

The primary insurance activity carried out by the Group assumes the risk of the loss from members and their dependants that are directly subject to the risk. These risks relate to the health of the Group's members. As such the Group is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Group also has exposure to market risk through its insurance and investment activities.

The Group manages its insurance risk through benefit limits and sub-limits, approval procedures for the transactions that involve pricing guidelines, pre-authorising and case management, service provider profiling, centralised management of risk transfer arrangements as well as the monitoring of emerging issues. Certain risks are mitigated by entering into risk transfer arrangements.

The Group uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analysis, scenario analysis and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected.

Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The strategy is set out in the annual business plan, which specifies the benefits to be provided by each option, the preferred target market and demographic split thereof.

Benefits and associated contributions are calculated taking into account the Group's risk concentrations, changes in utilisation based on historical data and inflationary increases.

RISK MANAGEMENT

The ultimate responsibility for managing the risk environment of the Scheme lies with the Board of Trustees.

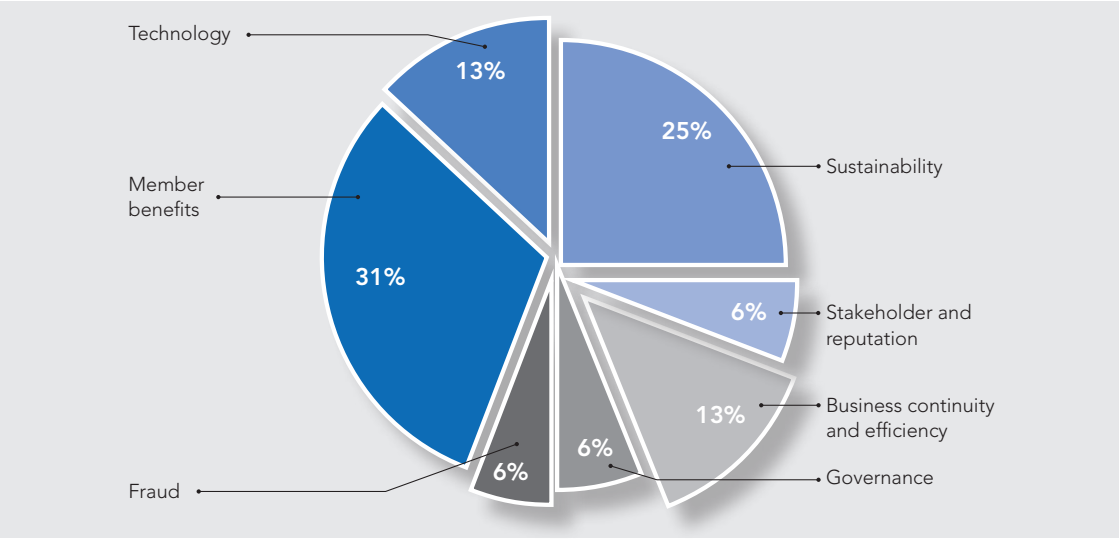
Risk Management at the Scheme is inter alia comprised of development and implementation of Charters for the Audit and Risk Committee. Management has formed a Risk Steering Committee that manages risk at an operational level to enable the Audit and Risk Committee to discharge its duties in this regard. The Risk Management Framework that elaborates the risk management processes and procedures to manage the Scheme's risks was developed and implemented.

Development of the risk appetite of the Scheme that defines the tolerance levels for its identified risks. Annual risk workshops were hosted where several risks and threats to the Scheme were identified both at the Strategic Level as well as Business Level and addressing the mitigation actions limits the Scheme's risk exposures. Risk Management training was launched across interested parties and included all members of the Board to ensure a sound understanding of risk management principles within the Scheme.

The internal audit function as a risk-based assurance over the effectiveness of controls and risk management within the Scheme has been outsourced. The Scheme has implemented the BarnOwl system as a systemised control over risk management.

The following pie-chart illustrates the risk distribution by category within the Scheme:

RISK DISTRIBUTION BY CATEGORY



RISK SUMMARY LISTING

RISK DESCRIPTION
Capital adequacy (insufficient)
Inadequate Scheme governance and compliance
Fraud, corruption and gross misconduct
Inability to provide need-based healthcare benefits and services
Inadequate contingency management
Poor stakeholder management and relations
Inadequate management and procurement of third-party providers
Inadequate information technology integration
Failure to adapt to change
Loss of specialised focus

COMBINED ASSURANCE

Combined assurance coverage is obtained from Management, Internal Assurance Providers and External Assurance Providers on the risk areas affecting the Scheme. A five-step approach to our combined assurance plan is as follows:

- Step 1 – Identify the entire entity risk universe
- Step 2 – Identify existing management control
- Step 3 – Identify risk management and compliance-monitoring processes
- Step 4 – Identify independent assurance obtained for critical risks
- Step 5 – Audit and Risk Committee to recommend for approval by the Board of Trustees and monitor combined assurance plan.

FRAUD RISK AND FORENSIC MANAGEMENT

a. FRAUD AWARENESS, PREVENTION AND DETECTION

The Scheme continued the drive to go beyond fraud detection and engaged in training and awareness. The Scheme believes that the best way to prevent fraud is by increasing detection.

The Forensic Team in partnership with the Communications Unit were engaged in 18 wellness days and visited three police stations – 4,815 members were reached.

b. FRAUD DETECTION

PROVINCE	OPENED	INSPECTED	INTERVIEWED	% OPENED	% INSPECTED	% INTERVIEWED
EASTERN CAPE	61	12	12	13	13	10
FREE STATE	25	1	1	5	1	1
GAUTENG	148	58	68	31	60	60
KWAZULU-NATAL	171	19	30	35	20	27
LIMPOPO	25	1	0	5	1	0
MPUMALANGA	21	4	1	4	4	1
NORTH WEST	14	1	1	3	1	1
NORTHERN CAPE	3	0	0	1	0	0
OTHER	0	0	0	0	0	0
WESTERN CAPE	14	0	0	3	0	0
TOTAL	**482**	**96**	**113**	**100**	**100**	**100**

c. FORENSIC CASES BY DISCIPLINE

DISCIPLINE TYPE	% OF CASES IDENTIFIED	% OF RAND VALUE
General Practitioner	32%	17%
Pharmacy	18%	62%
Psychologist	9%	8%
Allied and Support Services	4%	7%
All other	37%	7%

d. FORENSIC RECOVERIES

	ACKNOWLEDGEMENT OF DEBT	OFFSET AGAINST CLAIMS	PAYMENTS RECEIVED	TOTAL
	R	R	R	R
2013	14,215,256	2,396,292	4,533,860	**21,145,408**
2014	10,022,843	4,477,204	6,386,290	**20,886,337**

e. FRAUD RESPONSE

The following mitigation actions were implemented by the Scheme:

- direct payment to members instead of providers;
- fraud information shared with medical industry bodies;
- providers that were impossible to rehabilitate were removed from the Scheme's established provider networks;
- amount owing by provider offset against future claims;
- direct recovery from providers; and
- criminal cases lodged against providers.

3. PERFORMANCE AGAINST STRATEGIC OBJECTIVES

The specific strategic objectives are each measured by key performance and risk indicators. Below is a list of the performance against each strategic objective.

STRATEGIC OBJECTIVES	ACHIEVEMENTS
To ensure members are able to receive appropriate healthcare through benefit provision and management	▶ Member satisfaction survey • 81% overall satisfaction • 85% positive allegiance • 82% satisfied that Polmed takes care of their healthcare needs • 86% will always prefer Polmed over any other scheme ▶ Claims settlement • Electronic – 1.34 days • Paper – 14.9 days
To ensure a well-informed stakeholder base	▶ Overall stakeholder satisfaction of 82% ▶ 62,074 members reached through outreach and communication initiatives Area visits (58%) 36,352 Wellness events (19%) 11,535 Flu vaccine campaigns (23%) 14,187 62,074
To remain a sustainable scheme within a changing business environment	▶ Draft memorandum of understanding submitted to SAPS A meeting with the National Commissioner has occurred and we are awaiting the signed document ▶ Quantum of claims analysed for fraud potential or exclusion thereof – 6.1% ▶ >90% of Scheme risks effectively managed to "low" residual risk rating within the year
To ensure that Scheme resources are effectively leveraged in order to optimise performance	▶ Solvency ratio of 50.74% (2013: 48.87%) compared to the solvency level approved by the Registrar of Medical Schemes of 25% ▶ Non-healthcare cost ratio of 6.43% compared to industry average of 8.0% (closed scheme) and 13.3% (open scheme) – the most cost-effectively run Scheme in South Africa ▶ Earned investment income of R328m (2013: R351m) ▶ Investment income growth rate of 7.69% (2013: 10.29%) ▶ Staff retention of 97.67 % – one employee dismissed after an internal enquiry

The results of the Scheme's performance assessment indicate that all perspectives (sustainability, members, internal business process and learning and growth) of the balanced score-card containing the above-mentioned objectives were met by management.

4. TRUSTEE REMUNERATION AND CONSIDERATIONS

The following schedules set out Board of Trustee meeting attendance, attendance by members of the Board to committees and remuneration and considerations incurred by members of the Board during the year under review.

TRUSTEE AND OTHER BOARD MEETINGS ATTENDED

Trustee names	Board meetings		Audit and Risk Committee meetings		Remuneration Committee meetings		Clinical Governance Committee meetings		Investment Committee meetings	
	A	B	A	B	A	B	A	B	A	B
P Bester	4	4			5	5				
T Geldenhuys	8	7			7	7				
N Jafta	8	8							3	3
L Khumalo	8	8			2	2	6	6		
D Koena	8	8							4	4
G Marekwa	8	8			7	6				
N Mazibuko	6	1					6	2		
A Mofomme	2	1							1	1
I Molefe	8	8	4	4						
T Nsele	8	4					6	5		
S Schutte	8	7							4	4
G Serfontein	8	7	4	4			1	1		
A Shezi	8	7								
O Tlhoaele	8	7					6	5		
R van Wyk	4	4								

A – total possible number of meetings could have attended
B – actual number of meetings attended

TRUSTEES' REMUNERATION AND CONSIDERATIONS

Trustee names	Fees for meeting attendance	Training and conferences	Travel and accommodation	Total Scheme
	R	R	R	R
P Bester	86,884	(1,087)*	97,393	183,190
T Geldenhuys	-	(1,087)*	7,049	5,962
N Jafta	117,827	6,695	140,418	264,940
L Khumalo	168,867	6,108	41,051	216,026
D Koena	124,007	6,695	134,392	265,094
G Marekwa	88,042	5,608	28,998	122,648
N Mazibuko	-	7,195	21,239	28,434
A Mofomme	-	-	1,306	1,306
I Molefe	109,456	6,682	98,734	215,052
T Nsele	106,818	(1,087)*	21,591	127,322
S Schutte	-	-	2,168	2,168
G Serfontein	105,770	(1,087)*	14,594	119,277
A Shezi	-	5,608	24,923	30,531
O Tlhoaele	100,404	5,608	22,475	128,487
R van Wyk	39,713	7,195	22,589	69,497
	1,047,788	**53,226**	**678,920**	**1,779,934**

***Training and conferences credit balances relate to refund of 2013 BHF conference from the service provider.**

POLICY GUIDELINES FOR TRUSTEE REMUNERATION

Members of the Board shall be entitled to such remuneration, honorarium and other fees in respect of services rendered in their capacity as members of the Board and to such reimbursement in respect of travelling, accommodation and other expenses, which they may incur in attending meetings of the Board, as the Board may from time to time determine.

The honorarium payable to Trustees for meeting attendance is as follows:

	2014	2013
	R	R
Board of Trustee meetings:		
Chairperson	12,285	11,585
Trustee	9,830	9,270
Sub-Committee meetings:		
Chairperson	7,650	7,215
Trustee	6,120	5,770

The rate of reimbursement for travelling is reviewed by the Board on an annual basis and is calculated by taking into account the South African Revenue Services rates.

TRUSTEE REMUNERATION 2015

In terms of circular 41 issued by the Council for Medical Schemes (hereinafter referred to as the CMS) dated 11 September 2014, all schemes are required to have Trustee remuneration for 2015 approved by the Annual General Meeting (hereinafter referred to as the AGM). The following guideline has been issued by CMS:

- All medical schemes must ensure that the role of a Trustee is clearly defined in the schemes' rules.
- All medical schemes that remunerate Trustees must take into account the principles of the King III Report on Governance read together with the King III Remuneration Practice Notes when taking decisions about their approach to Trustee remuneration and developing their Trustee Remuneration Policy (hereinafter referred to as a TRP).
- All medical schemes that choose to remunerate their Trustees should develop a TRP that clearly sets out the scheme's approach to Trustee remuneration. The TRP should first be approved by the Board and then it must be tabled at the AGM for a vote by members of the medical scheme.
- All medical schemes that choose to remunerate their Trustees must ensure that the composition of their fee structure for Trustees is consistent with the principles of the King III Report read together with the King III Remuneration Practice Notes.
- All medical schemes that choose to remunerate their Trustees should take note of the fact that the fees payable for non-executive directors of the JSE-listed

companies or private companies are not an appropriate reference point for comparison or benchmarking purposes.

- No medical scheme should pay fees for consulting services performed by a Trustee for the medical scheme or the Board. Trustees should remain independent at all times and should operate in a non-executive capacity.
- No medical scheme should pay Trustees any remuneration for attending conferences or training events over and above the attendance or accommodation costs.
- All medical schemes that remunerate their Trustees are hereby directed to ensure that their rules clearly define the manner in which they reimburse or remunerate their Trustees as well as the process involved in determining such reimbursement or remuneration.
- All medical schemes that remunerate their Trustees must ensure that the fees payable to Trustees are approved by the members in advance during the AGM and not retrospectively.
- At least 21 days prior to holding the AGM, all medical schemes that remunerate their Trustees must provide their members and the Office of the Registrar of Medical Schemes, with all the information pertaining to the proposed remuneration of Trustees to be approved during the AGM. This includes any documents which indicate how the proposed fees were determined as well as the persons involved.

The following process has been embarked on to ensure compliance with the above-mentioned issued guideline:

1. The role of a Trustee has been defined in the rules of the Scheme – refer to Rule 19.
2. The principles of the King III Report on Governance, read together with the King III Remuneration Practice Notes, were taken into account when decisions about the approach to Trustee remuneration were considered.
3. A TRP is being developed for adoption at the forthcoming AGM.
4. Remuneration of Trustees are defined in the rules of the Scheme – refer to Rule 18.26.
5. Process for the enhancement of current rules has been initiated to include recommended definitions as contained in CMS guidelines.
6. Some Trustees have elected not to receive any honorarium.

PROPOSED FEES FOR 2015

	2015	2014
	R	R
Board of Trustee meetings:		
Chairperson	13,025	12,285
Trustee	10,420	9,830
Sub-Committee meetings:		
Chairperson	8,110	7,650
Trustee	6,485	6,120
Basis of remuneration		
Salary reference point	SAPS remuneration structure	
Duration of meetings		
Board of Trustee meetings	4 hours**	
Sub-Committee meetings	3 hours**	
Increase base	CPI (6%)	

** Meeting hours exclude preparatory work

MOTIVATION FOR ADOPTION

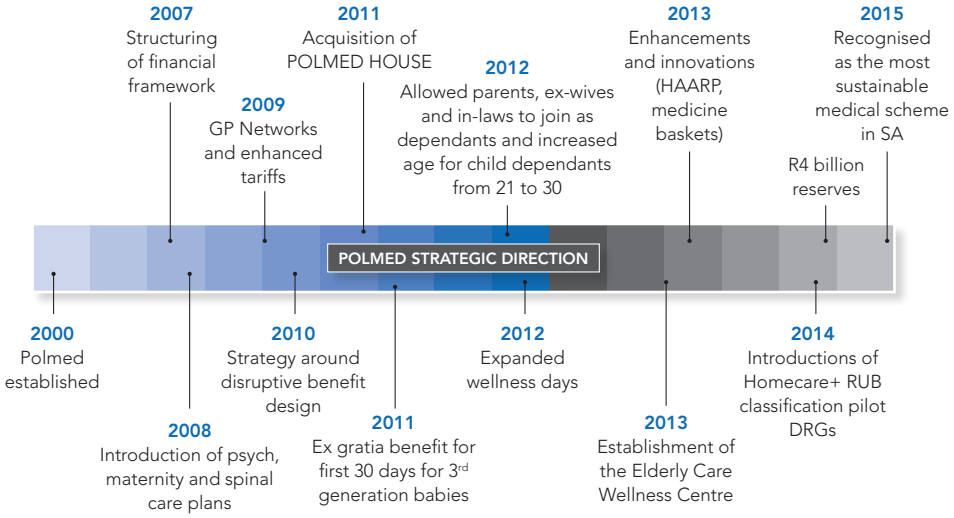
The remuneration paid to Trustees (part of non-healthcare cost) during a financial year is reported in a report published by CMS on an annual basis. In the latest report that covers the period 1 January to 31 December 2013, the Scheme was not amongst the top 10 schemes in terms of remuneration paid to Trustees and had the lowest non-healthcare cost ratio in the industry.

5. FUTURE PERFORMANCE OBJECTIVES

The specific strategic goals for 2015 are each supported by measurable objectives. Below is a list of each strategic goal supported by its core strategic objectives. A multi-period performance score-card will then provide further details under each objective.

STRATEGIC GOAL	STRATEGIC OBJECTIVES
A. To ensure members are able to receive access to affordable quality healthcare	a. To provide quality and evidence-based healthcare benefits b. To provide member-centric products and services
B. To ensure sound relationships with stakeholders	a. To improve relationships with stakeholders through effective communication strategies, interventions and engagements
C. To remain a sustainable scheme within a changing business environment	a. To ensure a sound and well-governed organisation b. To position a delivery-model that is focused on preventative care c. To manage resources effectively and efficiently

The graph below illustrates the journey of the Scheme since its inception, highlighting the significant events that have occurred.



6. FINANCIAL HIGHLIGHTS

This document contains highlights of the Scheme's results for the year ended 2014, extracted for the 2014 Integrated Annual Report. The Auditor has expressed an unqualified opinion on the Annual Financial Statements with no audit findings or corrections.

SUMMARY OF THE FINANCIAL PERFORMANCE:

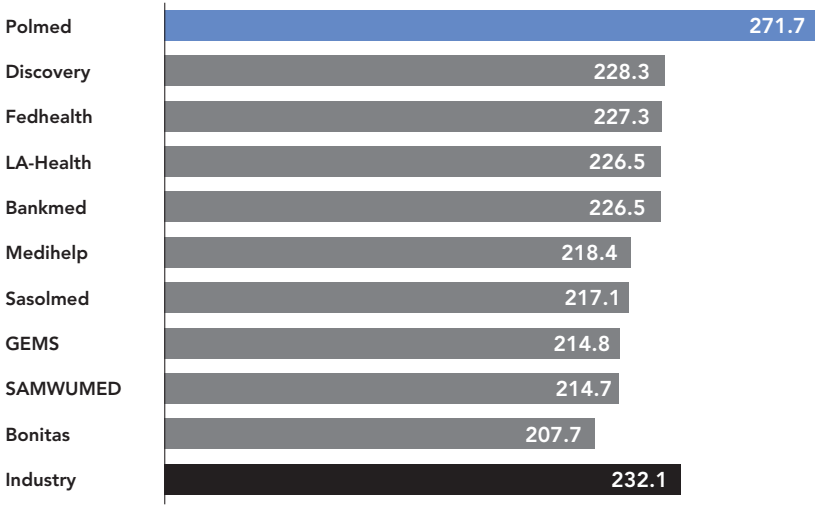
	2014	2013
	R	R
Contributions collected	7,1bn	6,6bn
Net surplus	289m	373m
Solvency	50.74%	48.87%
Members' funds	3,8bn	3,4bn
Reserves per beneficiary	7,650	7,028
Average return on investment	7.69%	10.29%

Sustainability index

The Alexander Forbes Health Diagnosis (AFHD) is an analysis of key trends in the medical scheme industry over the 14-year period from 2000 to 2013. The AFHD is based largely on the financial results of registered medical schemes, with the focus being on the 10 largest open and 10 largest restricted schemes by membership.

Using the results of this analysis, the Alexander Forbes Health Medical Schemes Sustainability Index (Index) attempts to assess a scheme's sustainability index by combining certain key factors related to the performance indicators overleaf and considering their impact on a medical scheme in future years.

The top 10 most sustainable schemes according to the index are seen in the graph below.



Source: Alexander Forbes Health's Diagnosis, an analysis of key trends in the medical schemes industry published in November 2014.

From the graph above we can see that Polmed is the most sustainable medical scheme in the industry. In addition, **Polmed is the only scheme whose index score is higher than that of the industry, indicating that the industry's index score is actually enhanced upwards by Polmed's score.** While the AFHD note that differences of 10 to 20 points are immaterial, the fact that Polmed's score is more than 40 points higher than that of Discovery (the second most sustainable scheme) reinforces their position as the most sustainable scheme.

The 2014 Integrated Annual Report, including the full set of Audited Financial Statements, will be available at www.polmed.co.za from 1 May 2015, as well as at the Scheme premises:
Crestway Office Park – Block A
20 Hotel Road
Persequor Park
Lynnwood
Pretoria

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

The following area of non-compliance with the Act was identified during the course of the financial year:

Contravention of Section 26(7):
In terms of Section 26(7) of the Medical Schemes Act 131 of 1998, as amended, all subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becomes due.

Although the majority of contribution payments were made within the stipulated payment deadlines, there were a small number of instances where the Scheme received contributions after three days of becoming due but still within the same month. Such arrears payments are outside the agreed contribution collection agreements with paying parties and are actively addressed as and when they occur.

The procedures that the Scheme follow for collection of these arrear contributions are aligned with its credit risk management policies.

Contravention of Section 35(8):
In terms of Section 35(8) of the Medical Schemes Act 131 of 1998, as amended, a scheme should not have any shares in an employer who participates in the medical scheme or any administrator or any agreement associated with the medical scheme.

At 31 December 2014 the Scheme had indirect holdings in MMI Holdings Limited (R3,669,210) and Discovery Holdings Limited (R6,056,707).

The Scheme has applied and obtained exemption from Section 35(8).

Contravention of Section 59(2):
In terms of Section 59(2) of the Medical Schemes Act 131 of 1998, as amended, a scheme shall settle all claims due within thirty (30) days of receipt.

Although the majority of claims were settled within the stipulated guidelines, there were a small number of instances when the Scheme settled claims after 30 days. A solution had been scoped as reported in the previous set of financial statements but required a final review prior to implementation. The solution has now been proposed for implementation during the second quarter of 2015.

REPORT OF THE INDEPENDENT AUDITOR

REPORT OF FACTUAL FINDINGS
To the members of the South African Police Service Medical Scheme

We have performed the procedures agreed with you and enumerated below with respect to the extracts of the unqualified audited financial statements of the South African Police Service Medical Scheme as at 31 December 2014, set forth in the accompanying schedules. Our engagement was undertaken in accordance with the International Standard on Related Services 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*. The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed is that of the Board of Trustees of the South African Police Service Medical Scheme. Our procedures were performed solely to assist you in evaluating the accuracy of the extracts from the audited financial statements which have been included in the accompanying schedules and are summarised as follows:

We obtained and checked the extracts from the audited financial statements which have been included in the accompanying schedules as at 31 December 2014 prepared by the South African Police Service Medical Scheme, and we compared the disclosure to the audited financial statements.

We report our findings below:

With respect to the above, we found that the amounts and the disclosures agreed to the unqualified audited financial statements of the South African Police Service Medical Scheme as at 31 December 2014. No exceptions were noted.

Because the above procedures do not constitute either an audit, review or other assurance engagement made in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements, we do not express any assurance on the extracts of the unqualified audited financial statements of the South African Police Service Medical Scheme as at 31 December 2014 included in the accompanying schedules.

Had we performed additional procedures or had we performed an audit, review or other assurance engagements of the financial statements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set out in the first paragraph of this report and for your information, and is not to be used for any other purpose, nor to be distributed to any other parties. This report relates only to the schedules and items specified above, and does not extend to any financial statements of the South African Police Service Medical Scheme, taken as a whole.

KPMG Inc

Per NKS Malaba
Registered Auditor
Chartered Accountant (SA)
Director
16 April 2015

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	GROUP		SCHEME	
	2014	2013	2014	2013
	R	R	R	R
Non-current assets				
PPE	64,419,066	55,545,806	8,058,101	7,288,568
Investments	2,982,622,466	3,097,154,385	2,982,622,466	3,097,154,385
Investments in subsidiary	-	-	100	100
Operating lease asset	30,444	266,902	-	-
Loan to subsidiary	-	-	65,203,310	60,228,909
	3,047,071,976	**3,152,967,093**	**3,055,883,977**	**3,164,671,962**
Current assets				
Investments	335,329,648	488,844,018	335,329,648	488,844,018
Trade and other receivables	90,598,094	94,263,005	91,044,135	95,991,857
Loan to subsidiary	-	-	-	2,717,770
Operating lease asset	55	-	-	-
Cash	833,929,190	250,361,538	833,760,178	249,148,138
	1,259,856,987	**833,468,561**	**1,260,133,961**	**836,701,783**
Total assets	**4,306,928,963**	**3,986,435,654**	**4,316,017,938**	**4,001,373,745**
Members' funds	**3,783,636,280**	**3,494,841,060**	**3,792,374,387**	**3,508,679,266**
Non-current liabilities				
Operating lease liability	-	-	481,189	1,475,285
Current liabilities				
Operating lease liability	-	-	1,781,928	-
Outstanding claims provision	347,068,990	306,164,827	347,068,990	306,164,827
Trade and other payables	174,504,429	183,904,335	172,592,180	183,528,935
Employee benefits	1,719,264	1,525,432	1,719,264	1,525,432
	523,292,683	**491,594,594**	**523,162,362**	**491,219,194**
Total funds and liabilities	**4,306,928,963**	**3,986,435,654**	**4,316,017,938**	**4,001,373,745**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	GROUP		SCHEME	
	2014	2013	2014	2013
	R	R	R	R
Net contribution income	**7,055,646,711**	**6,610,706,841**	**7,055,646,711**	**6,610,706,841**
Relevant healthcare expenditure	**(6,634,632,427)**	**(6,148,046,806)**	**(6,634,632,427)**	**(6,148,046,806)**
Net claims incurred	(6,681,115,442)	(6,166,503,751)	(6,681,115,442)	(6,166,503,751)
Claims incurred	(6,708,678,299)	(6,195,469,897)	(6,708,678,299)	(6,195,469,897)
Third-party claims recoveries	27,562,857	28,966,146	27,562,857	28,966,146
Net profit/(loss) on RTA	46,483,015	18,456,945	46,483,015	18,456,945
RTA premiums	(181,017,209)	(181,337,176)	(181,017,209)	(181,337,176)
Recoveries from RTA	227,500,224	199,794,121	227,500,224	199,794,121
Gross healthcare results	**421,014,284**	**462,660,035**	**421,014,284**	**462,660,035**
Managed care	(140,926,140)	(127,595,263)	(140,926,140)	(127,595,263)
Administration fees	(313,491,886)	(297,265,580)	(311,446,275)	(296,300,240)
Impairments	(1,405,017)	(598,764)	(1,405,017)	(598,764)
Net healthcare results	**(34,808,759)**	**37,200,428**	**(32,763,148)**	**38,165,768**
Other income	**330,762,427**	**353,354,989**	**334,866,699**	**356,407,911**
Investment income	245,985,164	207,171,650	251,237,713	211,919,466
Realised and unrealised gains and losses	82,138,101	144,197,143	82,138,101	144,197,143
Other operating income	2,639,162	1,986,196	1,490,885	291,302
Other expenditure	**(18,408,430)**	**(17,331,069)**	**(18,408,430)**	**(17,331,069)**
Asset management fees	(18,408,430)	(17,331,069)	(18,408,430)	(17,331,069)
Other comprehensive income				
Gains on revaluation surplus	11,249,982	-	-	-
Results for the year	**288,795,220**	**373,224,348**	**283,695,121**	**377,242,610**

STATEMENT OF CHANGES IN FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2014

	GROUP		SCHEME	
	2014	2013	2014	2013
	R	R	R	R
Balance at the beginning of the year	3,494,841,060	3,121,616,712	3,508,679,266	3,131,436,656
Net surplus for the year	277,545,238	373,224,348	283,695,121	377,242,610
Other comprehensive income	11,249,982	-	-	-
Balance at the end of the year	**3,783,636,280**	**3,494,841,060**	**3,792,374,387**	**3,508,679,266**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

	GROUP		SCHEME	
	2014	2013	2014	2013
	R	R	R	R
Cash flows from operating activities				
Cash generated from operations	170,892,278	74,768,888	168,907,508	69,733,104
Net cash inflow from operating activities	**170,892,278**	**74,768,888**	**168,907,508**	**69,733,104**
Cash flows from investing activities				
Acquisition of property, plant and equipment	(3,708,214)	(2,788,157)	(3,674,974)	(2,291,606)
Proceeds on disposal of PPE	36,299	750	36,299	750
Loans advanced to subsidiary	-	-	(2,256,631)	(1,250,600)
Acquisition of investments	(2,723,388,660)	(4,518,269,530)	(2,723,388,660)	(4,518,269,530)
Proceeds on maturity of investments	2,925,613,555	3,962,563,938	2,925,613,555	3,962,563,938
Investment income	214,122,394	173,681,738	219,374,943	178,429,554
Net cash outflow from investing activities	**412,675,374**	**(384,811,261)**	**415,704,532**	**(380,817,494)**
Net decrease in cash and cash equivalents	583,567,652	(310,042,373)	584,612,040	(311,084,390)
Cash and cash equivalents at the beginning of the year	250,361,538	560,403,911	249,148,138	560,232,528
Cash and cash equivalents at the end of the year	**833,929,190**	**250,361,538**	**833,760,178**	**249,148,138**

SOLVENCY RATIO CALCULATION

	SCHEME	
	2014	2013
	R	R
Accumulated funds per Statement of Financial Position	3,792,374,387	3,508,679,273
Less: Unrealised gain on revaluation of investments at fair value through profit or loss	(212,089,877)	(277,911,271)
Accumulated funds per Regulation 29	**3,580,284,510**	**3,230,768,002**
Annualised gross contributions	**7,055,646,711**	**6,610,706,841**
Accumulated funds ratio	**50.74%**	**48.87%**

OPERATIONAL STATISTICS

OPERATIONAL ACTIVITIES PER BENEFIT OPTION – 2014

	SCHEME		
	HIGHER PLAN	LOWER PLAN	TOTAL
Number of members at year-end	123,755	49,062	**172,817**
Number of beneficiaries at year-end	356,691	137,911	**494,602**
Average number of members for the year	125,556	48,839	**174,395**
Average number of beneficiaries for the year	361,076	135,992	**497,068**
Beneficiaries per member at 31 December	1.88	1.81	**1.86**
Average contributions per member per month	R4,098	R1,647	**R3,402**
Average contributions per beneficiary per month	R1,422	R586	**R1,189**
Average relevant healthcare expenditure incurred per member per month	R3,881	R1,479	**R3,199**
Average relevant healthcare expenditure incurred per beneficiary per month	R1,347	R533	**R924**
Relevant healthcare expenditure as a percentage of contributions	94.71%	89.80%	**94.03%**
Net healthcare deficit	R21,595,476	R11,167,672	**R32,763,148**
Average non-healthcare expenditure incurred per member per month	R231.43	R187.00	**R218.81**
Non-health expenditure as a percentage of gross contributions	5.65%	11.36%	**6.43%**
Average age	28.48	21.53	**26.54**
65 years+ ratio	3.49%	0.59%	**2.68%**

OPERATIONAL ACTIVITIES PER BENEFIT OPTION – 2013

	SCHEME		
	HIGHER PLAN	LOWER PLAN	TOTAL
Number of members at year-end	121,462	54,648	**176,110**
Number of beneficiaries at year-end	351,140	146,135	**497,275**
Average number of members for the year	122,461	54,777	**177,238**
Average number of beneficiaries for the year	352,830	143,987	**496,817**
Beneficiaries per member at 31 December	2.89	2.67	**2.82**
Average contributions per member per month	R3,831.38	R1,491.46	**R1,554.10**
Average contributions per beneficiary per month	R1,329.80	R567.40	**R554.42**
Average relevant healthcare expenditure incurred per member per month	R3,642.88	R1,278.46	**R1,454.59**
Average relevant healthcare expenditure incurred per beneficiary per month	R1,260.10	R478.09	**R515.14**
Relevant healthcare expenditure as a percentage of contributions	94.30%	85.52%	**93.00%**
Net healthcare surplus	R7,501,830	R30,663,938	**R38,165,768**
Average non-healthcare expenditure incurred per member per month	R214.86	R169.76	**R100.43**
Non-health expenditure as a percentage of gross contributions	5.56%	11.36%	**6.42%**
Average age	28.32	21.50	**26.32**
65 years+ ratio	3.42%	0.57%	**2.58%**

NOTES

NOTES