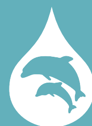

POLMED®

OUR **INVESTMENT** OUR **HEALTH** OUR **FUTURE**

POLMED ANNUAL GENERAL MEETING (AGM)

ALL POLMED MEMBERS ARE WELCOME!

POLMED MEMBERS ARE HEREBY INVITED TO THE 2016 AGM

DATE:
Thursday, 14 July 2016

TIME:
Registration and voting will take place between **08:00 - 10:00**
Commencement of business meeting at **10:00**

VENUE:
Old Grey Club, 2 Lenox Street, Glendinningvale (opposite Mount Road Police Station), Port Elizabeth, Eastern Cape

!

PLEASE BRING YOUR POLMED MEMBERSHIP CARD/DRIVER'S LICENCE/IDENTITY DOCUMENT TO THE AGM

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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 **Old Grey Club, 2 Lenox Street, Glendinningvale (opposite Mount Road Police Station), Port Elizabeth, Eastern Cape at 08:00 for 10:00 on Thursday, 14 July 2016.**

Members are therefore invited to attend. Kindly bring your identification along, e.g. POLMED membership card and identity document or driver's licence.

AGENDA

1 Opening and Welcome

2 Constitution

3 Approval of Agenda

4 Introduction of Board of Trustees and Officials

5 Confirmation of Minutes - 16 July 2015

6 Matters Arising from Previous Minutes:

- **6.1** Motion 2.1: Rule 18.2.3 Review - Governance
- **6.2** Motion 2.3: Relationship and Mandate of CMS
- **6.3** Motion 2.4: Election Process

7 Integrated Report - 2015

8 Trustee Remuneration 2016/2017

9 Independent Auditor's Report

10 Consideration of Financial Statements

11 Appointment of External Auditors

12 Other matters of which due Notice has been given

13 Trustee Election Results

14 Closure

MINUTES OF THE ANNUAL GENERAL MEETING (AGM)

HELD ON THURSDAY, 16 JULY 2015 AT 10:00 AT THE JACK BOTES HALL, C/O CHURCH AND BODENSTEIN STREETS, POLOKWANE, LIMPOPO PROVINCE

1 OPENING AND WELCOME

The Chairperson welcomed all and thanked them for their attendance. The POLMED Risk Manager, Ms Bakkes, took the meeting through the emergency evacuation procedures. Colonel Mabusela opened with a message from 3 John 1:2. *"While preparing for good spirituality, everyone is also urged to prepare for good health. God wishes that we may prosper and have a good living with everyone around us."* The Provincial Commissioner, Lieutenant General Masemola, welcomed the Chairperson, Deputy Chairperson, Board of Trustees (BoT) members and all others present. He noted their appreciation to the South African Police Service Medical Scheme (POLMED) for the work done in the province and assured POLMED of their continued support. The Chairperson extended a special welcome to the Elderly Forum of Limpopo. She also extended a welcome to the representative of the CMS. All the service providers were thanked for the screening services done today.

2 CONSTITUTION

The Chairperson confirmed that 187 members were present. The meeting was therefore duly constituted, because a quorum was present.

3 APPROVAL OF AGENDA

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

4 INTRODUCTION OF BOARD OF TRUSTEES AND OFFICIALS

The Chairperson, Ms Shezi, introduced herself. The BoT members then introduced themselves, being: Mr Nsele (Deputy Chairperson), Ms Tlhoaele, Mr van Wyk, Ms Marekwa, Mr Schutte, Mr Khumalo, Mr Serfontein and Ms Molefe. POLMED management introduced themselves: Mr Sadiki - Chief Corporate Services and acting PO, Mr Bezuidenhout - Chief Finance Officer, Ms Motsepe - Finance Officer, Dr Gama - Chief Operations Officer, Mrs Eloff - Communications Manager and Dr Makkink - Medical Advisor.

5 CONFIRMATION OF MINUTES - 17 JULY 2014

The minutes of the meeting of 17 July 2014, included from pages 3–12 in the Annual Report, were adopted as a true reflection of the meeting and approved.

Mr Simelane moved for the adoption of the minutes and the adoption was seconded by Mr Mbolekwa.

6 MATTERS ARISING FROM PREVIOUS MINUTES

6.1 Motion 1: Rule 18

The Chairperson read the motion to the meeting. She noted that race and gender should be considered when members are appointed. The Chairperson confirmed that these matters would also be considered when the current three vacancies are filled.

6.2 Motion 2: Fit and Proper Trustees

The Chairperson read the motion to the meeting. She noted that this important matter, raised at the previous AGM, has been thoroughly deliberated on by the AGM Task Team and the BoT. A policy has been drafted, which also has to be disclosed to the CMS. The Chairperson informed the meeting that the policy was available to members for perusal. She confirmed that current and new BoT members would be evaluated and properly trained.

Mr Ngwenya applauded the way in which the BoT acted on this motion and confirmed that the AGM was satisfied that Motion 1 and Motion 2 be removed from the agenda.

6.3 Motion 3: Visibility of Board Members at Events

The Chairperson read the motion to the meeting. She confirmed that this has been developed and implemented. At least one BoT member would be delegated to attend wellness events/sessions. The meeting agreed that Motion 3 could also be removed from the agenda.

7 INTEGRATED REPORT - 2014

The Chairperson confirmed that the report was more detailed than the previous year, as requested by the previous AGM. The Chairperson requested the AGM to engage in discussions about the report.

She read the report profile and the organisational overview to the meeting, as on page 13 of the Annual Report.

She further read the business model to the meeting and emphasised the importance of the uniqueness of POLMED members. The Chairperson informed the meeting that the top cost drivers were psychological issues, which was important to be acknowledged. Benefits were designed in accordance with police profiles. Members were informed that social and psychological networks have been implemented and members were encouraged and invited to utilise the benefits.

The Chairperson took the meeting through the governance structure in the report, which confirmed that a formal internal audit function exists.

Referring to the board composition, the Chairperson informed the meeting that the two designated positions have not yet been filled. The Chairperson assured the members that meetings were not dominated by anybody and discussions were very robust and interactive.

The Chairperson of the Audit and Risk Committee, Mr Brown, addressed the meeting. He confirmed that the Committee is appointed in terms of the Medical Scheme Act. The Committee consists of five members, which included Mr Serfontein, Ms Molefe and three independent Trustees. He confirmed that a formal and appropriate terms of reference, as prepared by the BoT, was adopted and acted on. He noted the Committee's reliance on the work of the External Auditors. It was the responsibility of the Committee to ensure adequate internal processes and controls were in place. The External Auditors also give assurance on the adequacy of internal control and regular reports were received throughout the year. Mr Brown confirmed that no material matters arose to be attended to during 2014. He further confirmed that the Committee examined the Annual Financial Statements and recommended to the BoT, to recommend to the AGM, that the Annual Financial Statements be approved.

The Chairperson informed the meeting that the Chairperson of the Remuneration and HR Committee, Dr Geldenhuys, has retired. His position also has to be filled by the National Commissioner. Mr Khumalo was co-opted to the HRREMCO and was acting Chairperson. Mr Khumalo noted that the function of this Committee was to approve the remuneration strategy for the Group and to ensure that Trustees and POLMED employees were remunerated appropriately. The other members were Mr van Wyk and Ms Marekwa.

Ms Jafta was not able to attend the AGM due to a funeral she has to attend and Ms Koena was also not present, due to an emergency she has to attend to.

The Chairperson of the Clinical Governance Committee, Mr Nsele, noted the members of the Committee as: Mr Khumalo, Ms Tlhoaele, Dr Gama, Mr Ebrahim (representative from Metropolitan Health) and Ms Ramsingh. The duties relating to the benefit design was the responsibility of the Committee. The Committee reviews the benefits annually and ensures implementation of services by service providers. It was the responsibility of the Committee to ensure that benefits contributed to beneficiaries' health. Mr Nsele took the meeting through some of the unique benefits implemented. He confirmed that a high evaluation of protocols was always considered and decisions were thoroughly discussed. The Actuaries, NMG, assists with the financial costing of benefits and the Committee negotiates pricing with networks to ensure members are benefited.

The Chairperson of the Investment Committee, Mr Schutte, noted that the Committee assists the BoT with investments of the Scheme. It was important to preserve the capital which the Scheme has. The Committee also has to investigate the best rate of return and ensure compliance. Mr Schutte confirmed that the Committee's approach was aligned with the strategic view and strategic plan of the BoT. The importance of liquidity was noted and the Committee has to ensure that POLMED remains a going concern. The Committee consists of Ms Mofomme, Mr Schutte, Ms Koena and Ms Jafta.

The Committee is assisted by senior management and an investment consultant. POLMED currently has more than R4bn invested. The target was inflation + 3%, which was aligned with the Investment Policy, as approved by the BoT. Mr Schutte confirmed that the target of CPI + 3% was met for 2014. Mr Schutte noted the diversified investment portfolio to ensure risk is minimised. The investment income for the year was R245m. He further noted that the asset classes are frequently assessed, because of continuing market changes.

The Chairperson again noted the executives of the Scheme and Mr Sadiki addressed the meeting on the operating context. Referring to material issues and impacts, Mr Sadiki noted the importance of having controls in place to manage PMBs. POLMED developed a process to assess service providers to ensure they claimed for the correct amount of a PMB. Mr Sadiki confirmed that a Specialist Network was implemented from 1 January 2015.

Referring to the relationships with various entities, Mr Sadiki thanked everyone for their support and hard work, which assisted POLMED to continue to fulfil its obligations towards its members.

Mr Sadiki noted the target of reaching at least 45,000 through outreach programmes, but that 62,074 members were reached during 2014. Mrs Eloff and the Communications Team were congratulated on the work they have done.

Mr Sadiki referred the meeting to the calculations of benefits and associated contributions and noted that all decisions were in the interest of members. The Committees and BoT were always aware of all risks when deliberating on decisions.

Mr Sadiki noted that 482 fraud cases were opened and investigated. Investigators visited 96 of the service providers' premises for inspection and 113 interviews were held. The most forensic cases were with pharmacies at 62% and 17% with GPs. It was noted that R20,886m was recovered for 2014, which included acknowledgment of debt, offset against claims and payments received.

Mr Sadiki took the meeting through the performance against strategic objectives and noted the solvency ratio at 50.74%, against the CMS prescribed 25%.

Referring to the Trustee remuneration and considerations, Mr Sadiki noted that this matter will also be deliberated on under item 8 of the agenda. He assured the AGM of the Trustees' seriousness about their responsibilities and that they attended meetings with commitment. Mr Sadiki informed the meeting of Circular 41 received from the CMS, regarding Trustee remuneration. The circular requires that a Trustee Remuneration Policy should be in place and that final approval of remuneration was the responsibility of the AGM. Mr Sadiki noted that page 35 of the Annual Report has to be replaced by the new proposed fees, as inserted in the report.

Mr Sadiki read the three strategic goals to the meeting, as set by the BoT. He further referred the meeting to the POLMED Strategic Direction, indicating the milestones since 2000 until 2015.

Referring to non-compliance with the Medical Scheme Act, Mr Sadiki confirmed that management was doing everything to ensure POLMED was always compliant and that exemptions were obtained, where required.

Lieutenant General Masemola was excused at 12:10.

On enquiry of Mr Mbolekwa about the investigations on the migration between the two plans, Mr Nsele responded that annual investigations were conducted. The movements of members are integrated with the benefit design and communicated to members. He noted the observation that more members migrated from the Lower to the Higher Plan in the past five years and the Scheme needs to brace itself to ensure members are not negatively affected by these movements. The Chairperson also referred the meeting to the operational statistics on pages 49–50 and noted that the cover on the Lower Plan was in fact sufficient for members.

Mr Ngwenya referred the meeting to rumours that SAPS might become the only law enforcement body and that all other police officials would then become part of SAPS. He enquired whether the Actuaries could investigate how the Scheme could then still grow, but provide the same quality of the current services.

He further requested that more assurance should be provided on the work of the Internal Auditors and internal controls. The Chairperson responded to the first enquiry that discussions were in process about a single policing unit. Mr Schutte further responded that, should this happen, subject to government decisions, funds would follow function. Funds would therefore also be transferred, to ensure that POLMED would be able to retain sustainability.
Mr Brown responded to the second enquiry and explained the difference between Internal and External Auditors. External Auditors test the internal controls, as far as it concerns the information on the financial statements. The policy section of King III specifically deals with internal controls and audit. In order to therefore comply with legislation and good governance, it is required to understand what is happening with individual transactions. Internal Auditors are appointed to ensure that internal controls are adequate and that money paid, is in fact in the bank and that money is utilised to pay claims. The Internal Auditors have to ensure that internal controls are adequate and have to test the effectiveness thereof. Peer reviews are also done to ensure they work according to International Audit Committee Standards. The Audit and Risk Committee can then report to the BoT on the work performed by Internal Auditors.

8 TRUSTEE REMUNERATION

8.1 Trustee Remuneration Policy

The Chairperson again referred the meeting to the CMS requirement that a policy should be in place and that the remuneration should be approved by the AGM.

Mr Bezuidenhout explained that the SAPS remuneration structure was used as reference point when compiling the Trustee Remuneration Policy. Due to the fact that a medical scheme is a non-profit organisation, it was expected that Trustee remuneration should be lower than a director's remuneration in a company. The remuneration for BoT meetings, committee meetings and independent Trustees were calculated separately. It is important to note that a Chairperson and Deputy Chairperson has different responsibilities than ordinary members.

8.2 Trustee Remuneration 2015/2016

Mr Bezuidenhout explained the remuneration structure. He took the meeting through the number of hours for preparation, number of meetings and hours per meeting. Mr Bezuidenhout noted that the hours and rate per hour was established years ago. The remuneration of an average level of rank of a Brigadier (director) was taken and an hourly rate was then calculated at R550. 40% discount is taken into consideration, as the Scheme is a non-profit organisation. The hourly rate is then R330, which is equal to the rank of a Colonel. The proposed fee for a Trustee and Chairperson attending a BoT meeting is therefore R10,560 and R13,200 respectively. Mr Bezuidenhout further explained the calculation for committee meetings. Discount of 37.5% is given on the basis that committee meetings require less time and the proposed annual remuneration for a Trustee and Chairperson attending a committee meeting is R26,400 and R33,000 respectively. If compared to the industry, according to the 2013 CMS report, POLMED ranked number 14 out of 20 schemes. The highest Trustee remuneration was paid by GEMS, at an average of R568,000 per Trustee per annum. A similar approach was used for the calculation of independent committee members. Less hours are required for preparation, because it is anticipated that the independent members are qualified in a specific field. The proposed annual fee for an independent member is R50,000 per annum and R60,000 for the Chairperson.

Mr Ngwenya stated that the proposed remunerations cannot be approved because of the following concerns:

- **a** The BoT has a fiduciary responsibility to guide the finances of the Scheme, but it is now proposed that they should not be properly remunerated. He noted that the policy should not jeopardise the performance of the Scheme, because the Trustees are not properly remunerated.
- **b** Referring to the expertise of the independent Trustees, he noted that their abilities and willingness should not be abused only to safeguard the funds of the Scheme.
- **c** He further noted that the open and closed schemes should not be compared at all.

Mr Mbolekwa agreed and raised appreciation for the work done, but also raised a concern about the Trustees not being remunerated appropriately. He proposed that Trustees should be remunerated at the level of a director and that the discounts should be removed.

The Chairperson proposed that this matter be referred to the AGM Task Team and reported back at the next AGM.

Mr Ngwenya confirmed that the AGM requests this matter to be deliberated on, but it is too long to wait until the next AGM. Due to the fact that the CMS requires the remuneration to be approved in advance, Mr Mbolekwa noted that the AGM mandates POLMED to refine the calculations and also to remove all the discounts. The AGM unanimously agreed to this proposal.

The Trustee Remuneration Policy is therefore approved, subject to the proposed amendments.

The Trustee remunerations are approved, subject to further deliberations and the removal of the discounts.

9 EXTERNAL AUDITORS' REPORT

Mr Malaba from KPMG confirmed that the audit for the period ended 31 December 2014 has been completed. He confirmed that POLMED complies with all provisions of the Medical Scheme Act, as amended and IFRS. Mr Malaba confirmed that an unqualified audit opinion has been issued.

10 CONSIDERATION OF FINANCIAL STATEMENTS

Mr Bezuidenhout took the report as read. He referred the meeting to the Statements of Financial Position and noted investments at R4,152bn for 2014. Other assets of R155m were money owed by members or providers, furniture, etc.

The investment portfolio breakdown was presented. Direct property was noted at R56m, equities at R1,095m, bonds at R1,207m and cash at R1,794m. Mr Bezuidenhout confirmed that all investments were compliant, except in terms of Section 35(8), for which exemption has been obtained from the CMS.

The asset allocation of asset managers was noted as PPI (building), Mazi Capital (All Share Index), Coronation Fund Managers (equities on Top 40 shares), Taquanta (enhanced cash manager), treasury function by POLMED (short-term treasury requirements), STANLIB Asset Management (long-term bonds) and Sanlam Investment Management (short-term bonds).

Mr Bezuidenhout referred to Polmed Property Investments and noted the value of the property at R55,4m at the end of 2014. The building was revalued at the end of 2014, which was higher than the purchase price. The operation result increased to R11,3m for 2014, before depreciation and interest on the loan from POLMED.

Referring to funds and liabilities, accumulated funds were R3,784bn at the

end of 2014, which would enable POLMED to pay claims for 6.7 months, without receiving any income. With reference to the risk contribution income, employer contribution was noted at 76% and employee contributions at 24%.

Healthcare expenses were at 94% and 6% for non-healthcare costs, which consisted mainly of managed care and administration.

Hospitals was the largest contributor to healthcare spend at 32%, specialists at 22%, medicine at 21%, GPs at 12% and other at 13%.

If was noted that fraud recoveries increased since the Fraud Managers were appointed in July 2011.

Mr Bezuidenhout informed the meeting that the non-healthcare costs of POLMED were the lowest in the industry.

The investment income was noted as the largest portion of other income at R328m for 2014.

Mr Bezuidenhout noted that the Actuaries have been tasked to apply the risk-based approach regarding the reserving strategy. The Actuaries considered all the risks, quantified it and concluded that POLMED required a 50% solvency ratio.

Ms Motsepe presented the achievements to the meeting. As a result of an independent survey done by Alexander Forbes in 2014, POLMED was found to be the most sustainable scheme in the industry. She took the meeting through the matters considered during the survey. POLMED was therefore identified as the number one scheme on its sustainability index.

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

11 APPOINTMENT OF EXTERNAL AUDITORS

Mr Malaba was excused from the meeting.

Mr Brown noted that the AGM is responsible for the appointment of the External Auditors for 2015. He confirmed that the Audit and Risk Committee evaluated their performance against expectations and recommended to the BoT, to recommend to the AGM, that KPMG be re-appointed for the 2015 financial year.

The recommendation was unanimously approved that KPMG be re-appointment as External Auditors for 2015.

12 OTHER MATTERS OF WHICH DUE NOTICE HAS BEEN GIVEN

Mr Mbolekwa confirmed that Motion 1 with its sub-motions has been withdrawn.

Motion 2

Motion 2.1 - Rule 18.2.3 Review - Governance:
Mr Ngwenya explained this motion and Mr Schutte responded, by emphasising the importance that the BoT represented all beneficiaries of POLMED. Statistically, continuation members represent 19% (32,902) of the total POLMED membership (172,990). The continuation BoT members are however two, representing 14% of the 14 Trustees. Mr Schutte noted the importance that the elderly be properly represented. Mr Nsele confirmed that this matter would be considered and feedback would be given at the next AGM.

Motion 2.2 - Special Referral:
Mr Simelane explained this motion and Ms Molefe responded that a Specialist Network has been established in reducing the incidence where specialists send claims without the GP referral practice number. Where such penalties are however applied, the rejection remark to both the member and specialist will indicate that specialist referral is required. Dr Gama further confirmed that members also receive an SMS request that the referral is required. It is important to note that members are reimbursed in such instances. Mr Sadiki confirmed that members will however not be refunded if they go directly to a specialist, without a GP referral.

Motion 2.3 - Relationship and Mandate of CMS:
Mr Simelane noted that the CMS was unknown to them and it was important to know what the role of the CMS is. Mr Serfontein referred the meeting to the Medical Scheme Act, chapter 3 – paragraphs 4, 7, 8 and 9. These specify the constitution, functions and powers of the council and the registrar.

Mr Ngwenya requested that the BoT should schedule a meeting with the CMS, because the CMS could not act in the interest of the members whom they have never met. There is no direct engagement between the CMS and POLMED members. Mr Mbolekwa seconded Mr Ngwenya's request that this should be taken further by the AGM Task Team to engage with the CMS. Although the CMS is present, they are only observing and not in a position to respond to this motion now.

Motion 2.4 - Election Process:
Mr Simelane explained the motion to the meeting, that voting should rather take place at stations and not clusters. Mr van Wyk responded that the BoT is continuously deliberating on this matter to ensure that there is balance between access for members and costs involved. The BoT is also considering the opportunity to implement technology to improve access. A decision in this regard will be made before the next AGM and the AGM Task Team will deliberate on this matter for efficiency, to ensure that the maximum number of members are reached. Mr Simelane confirmed that this should be deliberated on by the AGM Task Team.

13 TRUSTEE ELECTION RESULTS

Mr Thomas from KDBS informed the meeting that the 2015 election was for three female Trustees and one serving male Trustee. In terms of the POLMED rules, the composition of the BoT should reflect the demographic and gender requirements. In the 2015 election, only black, serving members are eligible to stand for election. Mr Thomas noted that 99% of votes were completed and verified. The results are:

Female Trustees:
I Molefe – 5,265 votes
G Marekwa – 4,360 votes
N Twetwa – 4,275 votes

Male Trustee:
S Nsele – 3,625 votes

Mr Thomas thanked everyone for their participation in the election process. The Chairperson congratulated the elected Trustees.

14 CLOSURE

The Chairperson thanked the AGM for their time and participation. There being no further business, the meeting was adjourned at 14:35.

Chairperson **Date**

INTEGRATED REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

REPORT PROFILE

This report is published annually and covers the period 1 January to 31 December 2015.

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
Lynnwood
0081

PO Box 14812
Hatfield
0028

Benefit options within the Scheme
In terms of POLMED's rules, the Scheme offered two options during 2015:
- 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 as appropriate to medical schemes.

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:
- transparency;
- 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

- BP Buthelezi - Appointed on 18 November 2015
- T Geldenhuys - Resigned on 31 May 2015
- E Khumalo - Resigned on 31 December 2015
- L Mbana - Appointed on 18 November 2015
- DV Odendaal - Appointed on 18 November 2015
- S Schutte - Re-appointed on 1 August 2015
- A Shezi (Chairperson) - Re-appointed on 1 August 2015
- O Tlhoaele - Resigned on 31 December 2015

Elected members

- N Jafta - Existing
- D Koena - Resigned on 16 July 2015
- G Marekwa - Re-elected on 16 July 2015
- I Molefe - Re-elected on 16 July 2015
- T Nsele - Re-elected on 16 July 2015
- G Serfontein - Existing
- NL Twetwa - Elected on 16 July 2015
- R van Wyk - Existing

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 Motongana-Zote	Medical Doctor*	4	4
Adv N Tshombe	Advocate*	4	4
Ms I Molefe	Trustee	4	3
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	R114,000	R5,073	R119,073
Dr T Motongana-Zote	R63,680	R1,500	R65,180
Adv N Tshombe	R55,500		R55,500
Ms I Molefe	R23,411		R23,411
Mr G Serfontein	R34,521	R1,237	R35,758
TOTAL	**R291,112**	**R7,810**	**R298,922**

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.

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

EVALUATION OF ANNUAL FINANCIAL STATEMENTS

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.

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 2015, 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 REMUNERATION AND HR 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 four Trustees:

- Dr Geldenhuys (Chairperson) - Resigned 31 May 2015;
- Mr Khumalo (Chairperson) - Commenced 1 June 2015;
- Mr van Wyk;
- Ms Marekwa; and
- Ms Twetwa.

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 three Trustees:

- Mr Nsele (Chairperson);
- Mr Khumalo; 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:

- Mr Schutte (Chairperson);
- Ms Koena;
- Ms Jafta;
- Ms Molefe; and
- Mr van Wyk.

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	GROUP	
	2015	2014
	R	R
Investment property (PPI)	55,500,000	55,500,000
Collective investments	173,824,918	2,069,640
Money-market investments	953,516,768	835,743,558
SA-listed bonds	1,462,044,128	1,453,250,935
SA-listed equities	1,069,225,283	1,027,157,981
	3,714,111,097	**3,373,452,114**

CASH AND CASH EQUIVALENTS

Cash on hand	516	480
Call accounts	540,237,529	519,756,592
Current accounts	194,573,302	201,852,256
Money-market instruments	84,198,650	112,319,862
	819,009,997	**833,929,190**

INVESTMENT INCOME

Dividend revenue	36,205,566	39,429,143
Interest on investments as fair value through profit or loss	196,774,222	169,909,278
Interest on cash and cash equivalents	60,094,100	36,646,743
	293,073,888	**245,985,164**

OTHER REALISED AND UNREALISED GAINS AND LOSSES

Profit/(loss) on disposal of property, plant and equipment	82,753	(276,726)
Realised gain on disposal of investments at fair value through profit or loss	67,139,658	148,236,221
Unrealised loss on revaluation of investments at fair value through profit or loss	(109,267,855)	(65,821,394)
	(42,045,444)	**(82,138,101)**

During December 2015 the bond market lost 6% in value. As a result, this triggered an unrealised loss of R34m in our portfolio's bond exposure.

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

a 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 was 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.

b 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

c MEMBER EDUCATION AND AWARENESS

The business plan of the Scheme determined that at least 68,505 (40% of members) had to be reached during 2015. A communication plan and strategy was implemented in support of the objectives, as set out in the plan.

The Communications Team has undertaken area visits during the past year and reached 45,123 members during these visits.

Wellness and ad hoc events were also hosted during which 26,894 members were screened for:
- HIV/AIDS (voluntary counselling and testing);
- blood pressure;
- cholesterol;
- glucose; and
- BMI levels.

18,542 flu vaccines were also administered during the period under review.

A total number of 90,649 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

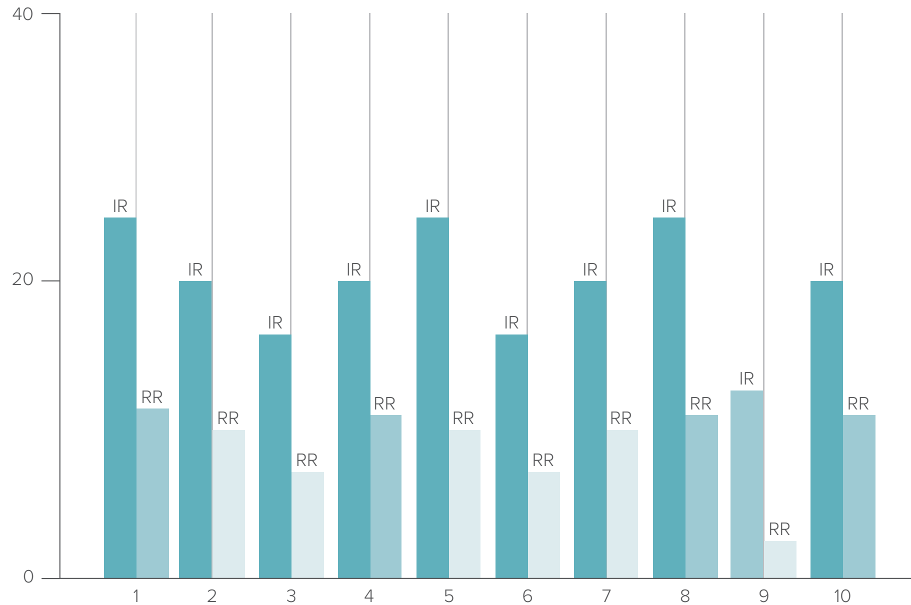
The ultimate responsibility for managing the risk environment of the Scheme lies with the Board of Trustees.

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 table illustrates the inherent risk versus residual risk distibution within the Scheme:



NUMBER	TITLE	IR	RR
1	Adverse decrease in solvency levels	25.0	10.0*
2	Benefit design and structure not meeting member and Scheme needs	20.0	8.0
3	Failure to adapt to change	15.0	6.0
4	Fraud, corruption and gross misconduct	20.0	10.0*
5	Inadequate third-party provider management	25.0	7.5
6	Inadequate contingency management	15.0	6.0
7	Inadequate Scheme governance and compliance	20.0	8.0
8	Inadequate technology systems	25.0	10.0*
9	Loss of specialised focus	12.0	2.4
10	Poor stakeholder relations	20.0	10.0*

*Management has implemented further mitigation actions for all risks with medium residual ratings.

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 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 wellness days, a Sport Indaba, Student Intake and Detective Training – 4,966 members were reached.

b FRAUD DETECTION

PROVINCE	CASES PROFILED	DECLINED FOR INVESTIGATIONS	CASES ALLOCATED	CASE IN PROGRESS: INTERVIEWED	CASE IN PROGRESS: INSPECTIONS	CASE IN PROGRESS: DESKTOP ANALYSIS	CLOSED CASES
EASTERN CAPE	74	1	73	13	6	32	22
FREE STATE	30	12	18	0	1	14	3
GAUTENG	154	22	132	19	12	62	39
KWAZULU-NATAL	176	26	150	23	14	63	50
LIMPOPO	55	6	49	0	2	24	23
MPUMALANGA	21	5	16	0	0	14	2
NORTH WEST	14	3	11	1	0	6	4
NORTHERN CAPE	4	1	3	0	0	2	1
WESTERN CAPE	32	11	21	1	0	17	3
TOTAL	**560**	**87**	**473**	**57**	**35**	**234**	**147**

c FORENSIC CASES BY DISCIPLINE

DISCIPLINE TYPE	% OF CASES IDENTIFIED	% OF RAND VALUE
General Practitioner	28%	29%
Pharmacy	28%	33%
Psychologist	12%	7%
All other	32%	31%

d INDIRECT SAVINGS

By comparing the 2014 and 2015 claiming patterns of providers that were previously investigated, a significant decline in claim values were noticed. This was due to interventions, such as acknowledgement of debt and indirect payment by the Fraud, Risk and Forensics Team.

	ACKNOWLEDGEMENT OF DEBT	INDIRECT PAYMENT	TOTAL
	R	R	R
2015	19,179,892	9,539,771	**28,719,663**

e FORENSIC RECOVERIES

	ACKNOWLEDGEMENT OF DEBT	OFFSET AGAINST CLAIMS	PAYMENTS RECEIVED	TOTAL
	R	R	R	R
2014	10,022,843	4,477,204	6,386,290	**20,886,337**
2015	9,811,692	11,899,717	8,700,588	**30,411,997**

f FRAUD RESPONSE

The following mitigation actions were implemented by the Scheme:

- direct payment to members instead of providers, referred to as indirect payment;
- 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 quality healthcare	• Overall member satisfaction of 81% • HQA report indicates an upward trend in the primary screening of members • Tools developed to address top drivers with special focus on psycho-social benefit access • Strategy which incorporates the support with debriefing of members has been drafted
To ensure sound relationships with stakeholders	• Overall stakeholder satisfaction of 82% • 90,649 members reached through outreach and communication initiatives – 53% of members
To remain a sustainable Scheme	• Draft memorandum of understanding submitted to SAPS We are awaiting the signed document • Weighted average spend on BBBEE for non-healthcare cost – 96.8% (level 2 contributor) • >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 51.29% (2014: 50.74%) compared to the solvency level approved by the Registar of Medical Schemes of 25% • Non-healthcare cost ratio of 4.74% – the most cost-effectively run Scheme in South Africa • Earned investment income of R251m (2014 – R328m) • Investment income growth rate 5.61% (2014 – 7.69%) • 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 abovementioned 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
BP Buthelezi	2	2								
T Geldenhuys	3	4			2	2				
N Jafta	10	10							4	4
L Khumalo	10	10			2	2	5	5		
D Koena	6	6							3	3
G Marekwa	6	10			4	4				
L Mbana	2	2								
I Molofe	9	10	3	4					1	1
T Nsele	6	10					3	5		
DV Odendaal	0	2								
S Schutte	6	10							4	4
G Serfontein	10	10	4	4						
A Shezi	8	10								
O Tlhoaele	6	10					5	5		
NL Twetwa	4	4			1	1				
R van Wyk	10	10			4	4			1	1

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

TRUSTEES' REMUNERATION AND CONSIDERATIONS

Trustee names	Fees for meeting attendance	Training and conferences	Travel and accommodation	Total Scheme
	R	R	R	R
N Jafta	178,457	-	146,659	325,116
L Khumalo	259,441	8,795	28,625	296,501
D Koena	71,933	8,795	67,479	148,207
G Marekwa	62,772	8,795	21,495	93,062
I Molefe	164,832	8,795	146,803	320,430
T Nsele	167,711	8,795	34,268	210,774
S Schutte	-	-	5,392	5,392
G Serfontein	195,667	8,795	24,790	229,252
A Shezi	-	-	6,666	6,666
O Tlhoaele	167,206	8,795	19,513	195,514
NL Twetwa	82,214	-	66,212	148,426
R van Wyk	218,867	8,795	43,502	271,164
	1,569,100	**70,360**	**611,044**	**2,250,504**

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 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.

TRUSTEES REMUNERATION 2016

PROPOSED FEE

	2016 R	2015 R
Board of Trustees meetings:		
Chairperson	23,300	22,000
Trustee	18,650	17,600
Sub-committee meetings:		
Chairperson	14,600	13,750
Trustee	11,650	11,000
Independent members:		
Chairperson	31,800	30,000
Trustee	26,500	25,000
Increase base	CPI (6%)	

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 2014, 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.

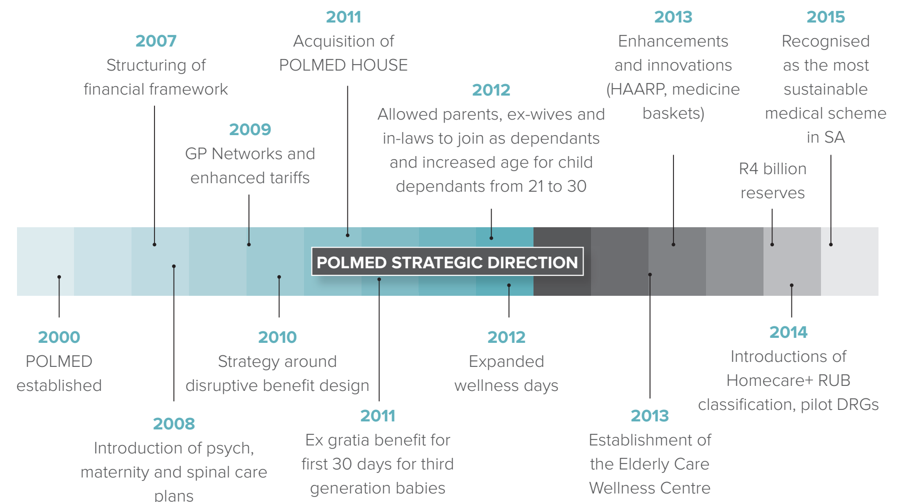
5 FUTURE PERFORMANCE OBJECTIVES

The specific strategic goals for 2016 are each supported by measurable objectives. On the right 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 GOALS	STRATEGIC (MEASURABLE) OBJECTIVES
1 Scheme sustainability	a To ensure a sound and well-governed organisation b To manage resources effectively and efficiently
2 Quality healthcare for Scheme members	a To provide quality and evidence-based healthcare[1] benefits b To position a delivery-model that is focused on preventative care
3 Sound relationships with stakeholders	a To improve relationships with stakeholders through effective communication strategies and interventions

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 2015, extracted for the 2015 Integrated Report.

The Auditor has expressed an unqualified opinion on the Consolidated Financial Statements with no audit findings or corrections.

SUMMARY OF THE FINANCIAL PERFORMANCE:

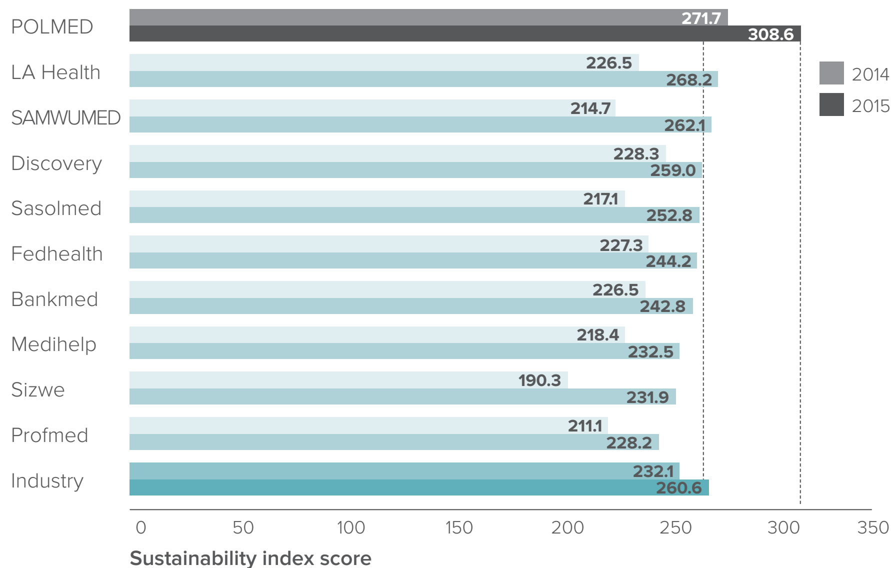
	2015	2014
	R	R
Contributions collected	7,6bn	7,1bn
Net surplus	229m	289m
Solvency	51.29%	50.74%
Members' funds	4,0bn	3,8bn
Reserves per beneficiary	8,162	7,650
Average return on investment	5.61%	7.69%

Sustainability index

The Alexander Forbes Health Diagnosis (AFHD) is an analysis of key trends in the medical scheme industry over the 15-year period from 2000 to 2014. 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 below 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 2015.

The graph on the left shows the top 10 most sustainable medical scheme according to the 2015/2016 Alexander Forbes Health Diagnosis. As seen in this graph, POLMED remains the most sustainable medical scheme in the market, remaining over 40 points higher on the sustainability index than any other scheme as well as the industry overall. In addition to this, POLMED was among the schemes with the highest percentage increase in their sustainability score, which is commendable given that they are coming from the highest base.

Of the top 10 most sustainable schemes in 2015, eight schemes also appeared in the top 10 list from 2014. The two new schemes in the top 10 are Sizwe and Profmed, sitting at positions nine and 10 respectively.

The 2015 Integrated Annual Report, including the full set of Audited Financial Statements, will be available at www.polmed.co.za from 15 May 2016, 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 2015 the Scheme had indirect holdings in MMI Holdings Limited (R2,442,198), the Liberty Group Limited (R23,388,864), Sanlam Limited (R37,511,760) and Discovery Holdings Limited (R4,002,593).

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 of notification for claims that require investigation beyond 30 days was implemented during the year.

EXTRACTS FROM THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

KPMG Inc., the Scheme's Independent Auditors, have audited the consolidated financial statements, including the Statements of Financial Position, Statements of Comprehensive Income, Statements of Changes in Funds and Reserves and the Statements of Cash Flows from which management extracted the primary reports contained in this Integrated Report.

The Auditors have expressed an unmodified opinion on the consolidated financial statements in terms of International Financial Reporting Standards and the manner required by the Medical Schemes Act of South Africa. The consolidated financial statements as well as the Auditor's Report thereon are available for inspection at the registered office of the Scheme.

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	GROUP		SCHEME	
	2015	2014	2015	2014
	R	R	R	R
Assets				
Non-current assets				
Property and equipment	58,787,506	64,419,066	6,254,408	8,058,101
Investments	3,277,301,252	2,982,622,466	3,277,301,252	2,982,622,466
Investments in subsidiary	-	-	100	100
Loan to subsidiary	-	-	65,906,968	65,203,310
Operating lease asset	198,701	30,444	-	-
	3,336,287,459	**3,047,071,976**	**3,349,462,728**	**3,055,883,977**
Current assets				
Investments	381,309,845	335,329,648	381,309,845	335,329,648
Operating lease asset	92,266	55	-	-
Insurance and other receivables	155,530,527	90,598,094	155,578,025	91,044,135
Cash and cash equivalents	819,009,997	833,929,190	818,912,755	833,760,178
	1,355,942,635	**1,259,856,987**	**1,355,800,625**	**1,260,133,961**
Total assets	**4,692,230,094**	**4,306,928,963**	**4,705,263,353**	**4,316,017,938**
Funds and liabilities				
Members' funds				
Reserves on revaluation of building	11,249,982	11,249,982	-	-
Accumulated surplus	4,001,035,638	3,772,386,298	4,025,090,433	3,792,374,387
	4,012,285,620	**3,783,636,280**	**4,025,090,433**	**3,792,374,387**
Liabilities				
Non-current liabilities				
Operating lease liability	-	-	-	481,189
Current liabilities				
Operating lease liability	-	-	481,193	1,781,928
Outstanding claims provision	325,181,598	347,068,990	325,181,598	347,068,990
Insurance and other payables	352,690,858	174,504,429	352,438,111	172,592,180
Employee benefits	2,072,018	1,719,264	2,072,018	1,719,264
	679,944,474	**523,292,683**	**680,172,920**	**523,162,362**
Total liabilities	**679,944,474**	**523,292,683**	**680,172,920**	**523,643,551**
Total funds and liabilities	**4,692,230,094**	**4,306,928,963**	**4,705,263,353**	**4,316,017,938**

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	GROUP		SCHEME	
	2015	2014	2015	2014
	R	R	R	R
Risk contribution income	**7,647,836,343**	**7,055,646,711**	**7,647,836,343**	**7,055,646,711**
Relevant healthcare expenditure	**(7,293,972,995)**	**(6,755,032,711)**	**(7,293,972,995)**	**(6,755,032,711)**
Net claims incurred	(7,179,518,456)	(6,681,115,442)	(7,179,518,456)	(6,681,115,442)
Risk claims incurred	(7,220,839,762)	(6,708,678,299)	(7,220,839,762)	(6,708,678,299)
Third-party claims recoveries	41,321,306	27,562,857	41,321,306	27,562,857
Net income on risk transfer arrangements	19,113,049	46,483,014	19,113,049	46,483,014
Risk transfer arrangement fees/premiums paid	(189,890,848)	(181,017,210)	(186,890,848)	(181,017,210)
Recoveries from risk transfer arrangements	206,003,897	227,500,224	206,003,897	227,500,224
Accredited managed care: management services	(133,567,588)	(120,400,283)	(133,567,588)	(120,400,283)
Gross healthcare results	**353,863,348**	**300,614,000**	**353,863,348**	**300,614,000**
Administration expenditure: benefit management services	(39,118,758)	(32,229,456)	(39,118,758)	(32,229,456)
Administration expenses	(322,302,667)	(301,788,286)	(322,207,938)	(299,742,675)
Net impairment losses on healthcare receivables	(1,404,888)	(1,405,017)	(1,404,888)	(1,405,017)
Net healthcare result	**(8,962,965)**	**(34,808,759)**	**(8,868,236)**	**(32,763,148)**
Other income	**257,255,066**	**330,762,427**	**261,227,043**	**334,866,699**
Investment income	293,073,888	245,985,164	298,668,793	251,237,713
Other realised and unrealised gains and losses	(42,045,444)	82,138,101	(42,045,444)	82,138,101
Other operating income	6,226,622	2,639,162	4,603,694	1,490,885
Other expenditure	**(19,642,761)**	**(18,408,430)**	**(19,642,761)**	**(18,408,430)**
Asset management fees	(19,642,761)	(18,408,430)	(19,642,761)	(18,408,430)
Net surplus for the year	**228,649,340**	**277,545,238**	**232,716,046**	**283,695,121**
Other comprehensive income				
Gains on revaluation of building	-	11,249,982	-	-
Total comprehensive income for the year	**228,649,340**	**288,795,220**	**232,716,046**	**283,695,121**

STATEMENT OF CHANGES IN FUNDS FOR THE YEAR ENDED DECEMBER 2015

	GROUP		SCHEME	
	2015	2014	2015	2014
	R	R	R	R
Balance at the beginning of the year	3,783,636,280	3,494,841,060	3,792,374,387	3,508,679,266
Net surplus for the year	228,649,340	277,545,238	232,716,046	283,695,121
Revaluation reserve	-	11,249,982	-	-
Balance at the end of the year	**4,012,285,620**	**3,783,636,280**	**4,025,090,433**	**3,792,374,387**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 2015

	GROUP		SCHEME	
	2015	2014	2015	2014
	R	R	R	R
Cash flows from operating activities				
Cash generated from operations	181,006,461	170,892,278	176,165,196	168,907,508
Net cash inflow from operating activities	**181,006,461**	**170,892,278**	**176,165,196**	**168,907,508**
Cash flows from investing activities				
Acquisition of property, plant and equipment	(857,216)	(3,708,214)	(835,428)	(3,674,974)
Proceeds on disposal of PPE	145,427	36,299	145,427	36,299
Loans advanced to subsidiary	-	-	(703,658)	(2,256,631)
Acquisition of investments	(2,739,989,695)	(2,723,388,660)	(2,739,989,695)	(2,723,388,660)
Proceeds on maturity of investments	2,290,062,857	2,925,613,555	2,290,062,857	2,925,613,556
Investment income	254,712,973	214,122,394	260,307,878	219,374,943
Net cash outflow from investing activities	**(195,925,654)**	**412,675,374**	**(191,092,619)**	**415,704,532**
Net decrease in cash and cash equivalents	(14,919,193)	583,567,652	(14,847,423)	584,612,040
Cash and cash equivalents at the beginning of the year	833,929,190	250,361,538	833,760,178	249,148,138
Cash and cash equivalents at the end of the year	**819,009,997**	**833,929,190**	**818,912,755**	**833,760,178**

SOLVENCY RATIO CALCULATION

	SCHEME	
	2015	2014
	R	R
Accumulated funds per Statement of Financial Position	4,025,090,433	3,792,374,387
Less: Unrealised gain on revaluation of investments at fair value through profit or loss	(102,822,022)	(212,089,877)
Accumulated funds per Regulation 29	**3,922,268,411**	**3,580,284,510**
Annualised gross contributions	**7,647,836,343**	**7,055,646,711**
Accumulated funds ratio	**51.29%**	**50.74%**

OPERATIONAL STATISTICS

Operational activities per benefit option – 2015

	SCHEME		
	HIGHER PLAN	LOWER PLAN	TOTAL
Number of members at year-end	124,560	46,703	**171,263**
Number of beneficiaries at year-end	357,651	133,903	**491,554**
Average number of members for the year	125,945	46,095	**172,039**
Average number of beneficiaries for the year	360,739	131,489	**492,228**
Beneficiaries per member at 31 December	1.87	1.87	**1.87**
Average contributions per member per month	R4,441	R1,806	**R3,721**
Average contributions per beneficiary per month	R1,547	R630	**R1,297**
Average relevant healthcare expenditure incurred per member per month	R4,260	R1,652	**R3,549**
Average relevant healthcare expenditure incurred per beneficiary per month**	R1,484	R587	**R924**
Relevant healthcare expenditure as a percentage of contributions**	95.96%	91.50%	**95.37%**
Net healthcare deficit	(R37,658,164)	R28,789,928	**(R8,868,236)**
Average non-healthcare expenditure incurred per member per month**	R190,20	R139,94	**R176,50**
Non-health expenditure as a percentage of gross contributions**	4.28%	7.75%	**4.74%**
Average age	28.70	21.63	**26.78**
65 years+ ratio	3.63%	0.63%	**2.82%**

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	R1,478	**R3,199**
Average relevant healthcare expenditure incurred per beneficiary per month	R1,344	R532	**R924**
Relevant healthcare expenditure as a percentage of contributions	94.71%	89.80%	**94.03%**
Net healthcare surplus	(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%**

**Circular 56 of 2015 issued by the Council for Medical Schemes on 9 September 2015 concluded that all accredited managed care services should be included as part of healthcare expenditure as they directly impact on the delivery of cost-effective and appropriate healthcare benefits to beneficiaries of medical schemes.

The managed care fee has therefore been reallocated to "Relevant healthcare expenditure" in the Statements of Comprehensive Income for 2014 and 2015. The reallocation has not affected or altered the "Net healthcare result" or net position of the Scheme.

NOTES