2016
ANNUAL REPORT

POLMED ANNUAL GENERAL MEETING (AGM)

ALL POLMED MEMBERS ARE WELCOME!

POLMED MEMBERS ARE HEREBY INVITED TO THE 2017 AGM

DATE:
Friday, 28 July 2017

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

VENUE:
Nelson Mandela Bay Stadium – Mixed Zone,
70 Prince Alfred Road,
(use Fettes Road entrance),
North End, 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 **Nelson Mandela Bay Stadium – Mixed Zone, 70 Prince Alfred Road (use Fettes Road entrance), North End, Port Elizabeth, Eastern Cape at 08:00 for 10:00 on Friday, 28 July 2017.**

Members are therefore invited to attend. Kindly bring your identification along e.g., POLMED membership card and identification 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

- **5.1** Annual General Meeting (AGM) Minutes – 16 July 2015
- **5.2** Special General Meeting (SGM) Minutes – 26 April 2017

6 Matters Arising from Previous Minutes:

- **6.1** 16 July 2015 (AGM):
  - **6.1.1** Motion 2.1: Rule 18.2.3 Review - Governance
  - **6.1.2** Motion 2.3: Relationship and Mandate of CMS
  - **6.1.3** Motion 2.4: Election Process
- **6.2** 26 April 2017 (SGM):
  - **6.2.1** Feedback on Interdict against the Scheme
  - **6.2.2** Feedback on CMS Directives against the Scheme

7 Integrated Report - 2016

8 Trustee Remuneration 2017/2018

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 Elections 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 Schemes 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 Schemes 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 have 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 Schemes 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 were 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 reappointed for the 2015 financial year.

The recommendation was unanimously approved that KPMG be reappointed 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 to reduce 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 Schemes 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

MINUTES OF THE SPECIAL GENERAL MEETING (SGM)

HELD ON WEDNESDAY, 26 APRIL 2017 AT 11:00 AT THE RIVERSIDE ESTATE & RUSTIQUE CONFERENCE VENUE, R104, MIDDELBURG, MPUMALANGA

1 OPENING AND WELCOME

The Chairperson welcomed everyone to the first SGM in POLMED's history and thanked them for their attendance. She extended a special word of welcome to all the dedicated continuation members, the representatives from the CMS and Major General Radebe. The Chairperson confirmed that the rules do allow for a SGM to address certain issues.

2 CONSTITUTION

The Chairperson confirmed that 116 members were present at 11:15 and the meeting was therefore duly constituted. The rules require a minimum of 50 members to be present for a meeting to be constituted.

Reverend Viljoen opened the meeting with a message from 2 Samuel 10:10 and 11, about attributes. He noted the importance of humbleness and willingness, and that everybody's abilities are necessary to achieve what is required. He further noted the advantages of teamwork and the strength in unity, which people can benefit from. Reverend Viljoen prayed for God's guidance during the meeting.

A member from the Eastern Cape raised concerns that member #36 is not a registered POLMED member. After deliberations and verification, it was confirmed that everyone present were indeed registered POLMED members.

On enquiry by members about the convened SGM, the Chairperson confirmed that a SGM of members may be called by the POLMED Board of Trustees (BoT), in terms of rule 26.2.

At 12:00 there were 146 POLMED members present.

Questions were raised by members why the 2016 Annual General Meeting (AGM) was postponed, but this will be dealt with under the relevant agenda item. Members also requested documents, which led to this SGM, to be provided to them. After various remarks and discussions, it was stated that political issues will not be entertained at the SGM.

The Chairperson again confirmed that the meeting was duly constituted and shall provide the background upon adoption of the agenda.

On behalf of the Provincial Commissioner, Major General Radebe welcomed everyone attending the meeting.

She stated that their province takes pride in the developments in Mpumalanga and they were aware of the challenges that POLMED was faced with. She thanked the Scheme and the BoT for the work done for POLMED and its members, as well as for their seriousness about governance.

3 APPROVAL OF AGENDA

Subsequent to members' requests, the agenda was amended, whereby item 5 was inserted as "Matters transpiring from the 2016 AGM". The current item 5 will therefore move to item 6. The adoption of the amended agenda was proposed by member #94 and seconded by member #202.

4 INTRODUCTION OF BOARD OF TRUSTEES AND OFFICIALS

The Chairperson allowed the BoT members and POLMED management to introduce themselves, being: Ms Molefe (Trustee), Mr Schutte (Trustee), Ms Twetwa (Trustee), Ms Marekwa (Trustee), Ms Moloko (Trustee), Ms Temba (Trustee), Mr Serfontein (Trustee), Ms Mbana (Trustee), Mr Nsele (Deputy Chairperson), Mr Sadiki (Acting Principal Officer), Mr Odendaal (Trustee), Mr Nethengwe (Trustee), Dr Makkink (Acting Chief Operations Officer), Ms Motsepe (Acting Chief Finance Officer), Mrs Eloff (Senior Manager Communication and Wellness) and Ms Teichert (Personal Assistant to the Principal Officer). The Chairperson noted that 50% of Trustees are designated by the employer and 50% are elected by members.

5 MATTERS TRANSPIRING FROM 2016 AGM

The Chairperson gave the background that the 2016 AGM was to be held on 14 July 2016. Apart from the normal matters which would have been dealt with, a disclosure of the CMS report also was to be made.

In January 2014, as part of a routine inspection of all medical schemes, the CMS issued a notice to POLMED for routine inspection, which commenced in February 2014. The council reported on an anonymous call which they received about maladministration within POLMED. A follow-up investigation was subsequently announced by the CMS in May 2014, to be conducted from August 2014. A report on both the outcomes of the inspection and investigation was received from the CMS in May 2015. POLMED was allowed to respond to the report during June 2015. When the CMS had received responses from all implicated parties, the Registrar then issued directives in terms of the Financial Institutions Act. The Medical Schemes Act allows for an appeal, but not the Financial Institutions Act. POLMED engaged with lawyers for assistance and to ensure that the Scheme complies with the directives.

As part of what was to be discussed at the 2016 AGM, information on the directives had to be provided to the members. The AGM was however interdicted, which prevented the BoT to disclose. The directive instructed that disclosure must be made at the 2016 AGM, but due to the interdict it could not be done and the BoT therefore convened this SGM.

The Chairperson stated that the documents leading to this SGM cannot be disclosed, because it may implicate the court process of the interdict.

The BoT had issues about some of the directives, but could of course not challenge it, because it was issued in terms of the Financial Institutions Act. The Chairperson informed the members that POLMED was the most sustainable and best performing medical scheme in South Africa, for the third consecutive year, according to the independent survey by Alexander Forbes. This achievement was published by the CMS. It is important for the BoT to update the members on developments within the Scheme and therefore took the initiative to address the directives, as indicated on the agenda, at this SGM. It is a practise of POLMED to provide members with documents prior to a meeting, but due to the pending court case it could not be done for this SGM. A POLMED AGM is usually held in July and if the court case is finalised by July 2017, the members can be provided with supporting documentation.

Member #17 noted that POLMED must then rather not act illegally by continuing with this meeting. He felt it will not be life-threatening if the meeting does not continue and that the BoT must only provide them with a report once everything has been concluded. Member #149 enquired why the view of the BoT differs from that of the Council in terms of the directives, if the BoT must act in the best interest of the members. The Chairperson responded that the directives were not issued in terms of the Medical Schemes Act and could therefore not be disputed.

Member #64 stated that due to the fact that POLMED is again the best performing scheme, the BoT must have done something right. Member #64 agreed with a statement made by member #94, stating that the members cannot give proper input and make informed decisions at a meeting if they are not provided with documents. Member #64 proposed that the BoT must resolve all the issues, conclude everything and then revert to the members at an AGM, whether it is in July 2017 or December 2017. He noted the members' frustrations with the BoT not able to resolve all the issues before calling a meeting. Member #36 seconded the proposals made by #64, to adjourn the meeting and for the BoT to resolve everything. Member #18 also proposed closure.

The Chairperson informed the members of the directive which instructs the BoT members to exit by a certain date, at which time the BoT will not be constituted according to the rules, as this may attract curatorship by CMS. She stated that the BoT does not have control over the court dates and finalisation of the interdict issue, and therefore wanted to disclose to the members before finalisation of their exit strategies. Member #64 stated that no BoT member is leaving until these matters are resolved and reported back at the AGM.

Member #64 also noted his satisfaction with the presence of the CMS representatives, who can see that the members request the meeting to be adjourned and the BoT to resolve everything before calling an AGM. He requested, on behalf of the members, that the CMS must not curate the Scheme,

because they are aware of the Scheme's good performance. The Chairperson asked if there was any objection from any member to the proposals cited above by #64 and seconded by #36, and there was no counter proposal.

The Chairperson indicated that due to the resolution of the members to adjourn the meeting, the disclosure of the directives and remainder of the agenda items will not be dealt with.

6 CLOSURE

The meeting was adjourned at 14:10.

Chairperson	Date

FEEDBACK ON INTERDICT AND CMS DIRECTIVES AGAINST THE SCHEME

1. Further to the communications of 15 July 2016 and 21 October 2016, this communication serves to provide members with information concerning directives issued by the Registrar and steps which are being taken as part of your Scheme's ongoing compliance and cooperation with the Registrar and the office of the Council for Medical Schemes (CMS).

2. The Registrar issued eleven (11) directives in May 2016 following an inspection in 2014.

3. To provide context to the directives, it makes sense to deal with the eleventh directive first and then to deal with the others in the normal order.

4. Eleventh directive:

The BoT must appoint a Trustee from amongst the new Trustees who will oversee the implementation of the above directives and liaise with my office.

4.1 As a new Trustee (appointed by the Acting National Commissioner from 1 November 2015), Mr De Villiers Odendaal was appointed by your Scheme and his involvement in implementing the directives is ongoing. Mr Odendaal is assisted by a committee of 'new Trustees', namely, Mrs Busisiwe Temba, Mrs Linda Mbana, Mrs Kedibone Moloko and Mr Nnyimeleni Nethengwe.

5. First and second directives

First directive:

The BoT must within 30 days of receipt of this notice take steps to institute an independent disciplinary hearing (the chairperson and evidence leader to be people with legal background and with experience in the medical aid industry but who have never acted for POLMED before) against the PO, Bezuidenhout and Gama.

Second directive:

The BoT must on receipt of the outcome of the disciplinary hearing against the PO, Bezuidenhout and Gama share it with CMS within 5 days.

5.1 The substance of the disciplinary hearing involved the matters mentioned in the third to sixth directives, which will be dealt with shortly.

5.2 Your Scheme appointed a suitably qualified and independent evidence leader to investigate the matters and to prepare disciplinary cases in respect of Dr Gama and Mr Mxenge. Mr Bezuidenhout passed away on 19 May 2016. Disciplinary proceedings were instituted against Dr Gama and Mr Mxenge by the Scheme and independent chairpersons were appointed. With the prior approval of the office of the Registrar, the matters were concluded with each of Dr Gama and Mr Mxenge.

5.2.1 Dr Gama's employment was terminated on 31 October 2016.

5.2.2 Mr Mxenge resigned on 30 September 2016 with effect from 30 November 2016 (the last two months being his notice period).

5.3 The first and second directives have been complied with to the satisfaction of the CMS.

6. Third to sixth directives

Third directive:

The BoT must within 30 days of receipt of this notice acquire the services of an independent party who has never rendered services to POLMED, to assist in computing recoverable costs from the PO, Bezuidenhout and Gama -

- arising from Kruger Rands the PO authorized for other employees, consultants and the ones the PO received;
- arising from the Kruger Rands Gama and Bezuidenhout received;
- arising from the cost used to fund the spouses of the PO, Gama and Bezuidenhout's travel and stay on international trips;
- arising from any tax penalty POLMED might have to pay to SARS as a result of failure to declare benefits;
- in the event that the recipients of the Kruger Rands are still in possession thereof, the Kruger Rands should be recovered and sold at market value for the benefit of POLMED;
- in the event that the recipients of the Kruger Rands have disposed thereof and upon proof of date and value at which the disposition occurred, the recovery must be at the value at which the Kruger Rands were disposed of provided that they were not disposed of below the purchase price;
- in the event that the recipient of the Kruger Rands disposed of the Kruger Rands below the purchase price, and upon proof of date and value at which they were disposed, the recovery must be at the value of the purchase price; and
- in the event that the recipients of the Kruger Rands have disposed of the Kruger Rands but with either no proof of date or value at which the Kruger Rands were disposed, recovery must be at market value on the date of recovery.

Fourth directive:

The recovery should cover the period of 3 years prior to the start of the Routine Inspection in September 2014 and any recoverable cost which might have been incurred by POLMED as a result of any of the continuous conduct post the inspections.

Fifth directive:

The Board of Trustees (BoT) must on receipt of the report of the independent party on recoverable costs share it with CMS within 5 days.

Sixth directive:

The BoT members who were part of the BoT when the above recoverable costs were incurred by POLMED are jointly and severally liable together with the PO, Bezuidenhout and Gama.

6.1 Your Scheme appointed an independent firm of auditors, Mazars, to assist in computing the recoverable costs.

6.2 Mazars prepared a report covering the period required by the Registrar in compliance with the third and fourth directives, and the report was provided to the CMS in compliance with the fifth directive.

6.3 To date, your Scheme has:

6.3.1 recouped all the travel costs queried by the Registrar except those relating to the estate of the late Mr Bezuidenhout. Your Scheme is engaging with the executrix of the deceased estate in this respect;

6.3.2 recovered 6 (six) Kruger Rands. Your Scheme is pursuing further recovery; and

6.3.3 paid over the estimated tax owing to SARS, as calculated by KPMG, on behalf of its employees at the end of January 2016 (i.e. before the directives were issued), relating to all awards and additional allowances granted. Mazars recorded that no penalties were raised by SARS.

6.4 Any joint and several liability is a factual and legal question which will be determined in due course.

6.5 Your Scheme is keeping the Registrar updated regarding the ongoing recovery exercise.

7. Seventh and eighth directives

Seventh directive:

Within 30 days take reasonable steps to recover the loans granted to the wholly owned subsidiary of POLMED without the authorization of Council.

Eighth directive:

Members of the BoT who were part of the BoT when all the loans were authorized and/or granted are also jointly and severally liable for the loans granted.

7.1 POLMED House was purchased for R55 million and is worth R58.8 million as per the November 2016 valuation report. Since the purchase, PPI (the wholly owned subsidiary of POLMED) has paid rent in excess of R18 million to the Scheme.

7.2 Undoing the loan requires putting a new arrangement in place regarding POLMED House, and your Scheme has taken advice from legal, tax and property specialists to ensure that a proposed new approach is sound.

7.3 Your Scheme's Investment Committee is finalising a proposal to the Registrar with the assistance of the Scheme's attorneys for restructuring the financing of POLMED House in a manner that promotes the best interests of your Scheme and its members. The Registrar has been informed of, involved in, and updated on this process.

7.4 Any joint and several liability is a factual and legal question which will be determined in due course.

8 Ninth directive:

The BoT must make a full disclosure on the investigations, findings and directives to members of the Scheme at the 2016 AGM.

8.1 The High Court proceedings instituted the day prior to the scheduled 2016 AGM prevented the Board of Trustees (BoT) from making the disclosures required by the Registrar in the 2016 AGM. The legal proceedings are not yet finalised.

8.2 The Registrar has approved the holding of a Special General Meeting (SGM) as a means of informing members, pending the holding of the AGM in the ordinary course.

8.3 This SGM will afford members an opportunity of tabling questions and further questions can be tabled in anticipation of the AGM in due course.

9 Tenth directive:

Given the findings against the executive members and the BoT, the affected Trustees are to submit their exit strategy from POLMED to my office within 30 days of receipt of this letter, which strategy will ensure the stability of the POLMED given the fact that the remaining Trustees are new at POLMED.

9.1 On 29 July 2016, the Scheme proposed an exit strategy to the Registrar adopting a staggered approach in order to facilitate a smooth transition while ensuring the retention of skills and knowledge on the Board.

9.2 The proposal was approved by the Registrar on 31 August 2016, on the condition that your Scheme provide an undertaking that vacancies will be filled promptly as and when they arise and that the Scheme will ensure that the Board's composition remains at all times compliant with section 57(2) of the Medical Schemes Act and the Scheme's Rules.

9.3 In accordance with the staggered approach, 2 (two) affected Trustees exited with effect from 1 December 2016, and the remaining 6 (six) affected Trustees will exit with effect from 1 August 2017.

10. The Board of your Scheme is committed to the best interests of you, its members, and the Scheme itself. The Board will continue to work closely with the Registrar to meet the requirements of the Registrar in terms of his directives. In doing so, the Board will act in the best interests of the Scheme and its members.

INTEGRATED REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

REPORT PROFILE

The POLMED 2016 Integrated Annual Report covers the financial year period from 1 January 2016 to 31 December 2016, and is our primary report to our stakeholders.

This is our fourth Integrated Annual Report. It provides an overview of our business model and strategy to achieve our stated ambition, as well as an integrated view of the past year's performance as it relates to the financial, economic and social factors that impact our business.

We aim to confine our report to the material issues that impact on our business and our stakeholders. Materiality is determined according to our business objectives, strategy, the important stakeholders we engage with and the macro-trends in our operating environment.

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, MEMBER DEMOGRAPHICS, 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 Medscheme Holdings (Pty) Ltd (Medscheme). The Group comprises the South African Police Service Medical Scheme (POLMED) and Polmed Property Investments (Pty) Ltd (PPI), 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 Street
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 2016:

- Marine Plan; and
- Aquarium Plan.

1.2 MEMBER DEMOGRAPHICS

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, Home Based Care 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 incident 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.

1.3 BUSINESS MODEL

POLMED, although a restricted medical scheme, falls under the ambit of the Medical Schemes Act, as promulgated in 1998. As such, POLMED has to comply with all levels of governance as stipulated in the Act.

The business model implemented by POLMED can be summarised as follows:

CONTRIBUTIONS INCOME

- Employer contributions – Employer contributions are calculated using the aggregate growth model negotiated by employee group representatives (±75% of contributions received from the employer).
- Member (employee) contributions – Employee contributions are calculated to be affordable (±25% of the contributions received from the employee/member).
- Net healthcare result is targeted at a breakeven level over time, and is calculated as follows – Net healthcare result = [income (excluding investment income) - expenditure]. As is stipulated in the Medical Schemes Act, a solvency ratio, which is calculated as follows, accumulated funds (reserves)/ contributions, has to be maintained at 25%. In order to achieve this level, POLMED follows a scientifically sound and actuarially supported benefit design process on an annual basis. Although the demands on medical care are infinite, the benefits available to fund medical care are finite, thus complying with a solvency ratio of at least 25% remains a challenge.
- Non-healthcare costs – This includes all expenditure incurred which is deemed non-healthcare related. In terms of the Medical Schemes Act, this expenditure cannot exceed 10% of the Scheme's total expenditure.

FUNDING MODEL

Like most funders in South Africa, POLMED is following the fee-for-service payment model to providers. There are currently two exceptions to this model, one is for emergency medical assistance that is outsourced as a capitation agreement to Netcare 911, and optometry benefits that POLMED outsourced in a capitation agreement to the Preferred Provider Negotiators (PPN).

In order to mitigate the risk that is associated with the fee-for-service environment, POLMED entered into various contractual agreements with provider groups such as hospitals, general practitioners, specialists, oncologists, renal dialysis providers and step-down facilities. Preferred rates and service level agreements have been negotiated with these provider groups in ensuring not only a cost-effective service delivery, but also a superior clinical outcome and member experience.

MANAGED CARE AND ADMINISTRATION

In order to comply with all aspects of the Medical Schemes Act, POLMED has outsourced the managed care as well as the administration functions of the Scheme.

Medscheme is currently POLMED's service provider in both managed care as well as administration. The service provider has contractual obligations with POLMED, which is being monitored via service level agreements by Scheme Management.

1.3.1 GOVERNANCE STRUCTURE

The Scheme is governed by the Board of Trustees and the Board of Trustees has the following structure:

BOARD OF TRUSTEES			
Audit and Risk Committee	Remuneration and HR Committee	Clinical Governance Committee	Investment Committee

The Scheme has the following business structure:

PRINCIPAL OFFICER				
Operations	Corporate Services	Finance	Forensics	Risk

In addition to the structures demonstrated above, the Scheme has outsourced certain functions and its extended structure and form would in essence be much larger if one takes into account the core functions that have been outsourced. Ultimately, the Board of Trustees has the fiduciary responsibility to look at the Scheme and ensure that the actions of the service providers and management are in the best interest of the members.

The Group is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders.

The Scheme appointed Medscheme to assist with day-to-day operations. The Board of Trustees meets regularly and monitors the performance of the Scheme. 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 Executives; and, where appropriate, they may seek independent professional advice on POLMED's account.

The Board of Trustees has adopted the principles of Corporate Governance as contained in the King III report as appropriate to medical schemes.

The Scheme 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 and Risk Committee.

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.

1.3.2 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 are required to 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 these purposes 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

- L Mbana - Appointed on 18 November 2015
- KC Moloko - Appointed on 1 January 2016
- NP Nethengwe - Appointed on 1 January 2016
- DV Odendaal - Appointed on 18 November 2015
- S Schutte - Reappointed on 1 August 2015
- A Shezi (Chairperson) - Reappointed on 1 August 2015
- BP Temba - Appointed on 18 November 2015

Elected members

- N Jafta -
  Resigned on 30 November 2016
- G Marekwa - Existing
- I Molefe - Existing
- T Nsele - Existing
- G Serfontein - Existing
- NL Twetwa - Existing
- R van Wyk -
  Resigned on 30 November 2016

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.

1.3.3 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	4
Mr G Serfontein	Trustee	4	4

*Independent members

The Principal Officer, Heads of Departments, the Risk Manager, 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	R120,000		R120,000
Dr T Motongana-Zote	R101,000	R1,124	R102,124
Adv N Tshombe	R101,000		R101,000
Ms I Molefe	R44,440	R296	R44,736
Mr G Serfontein	R44,440	R1,759	R46,199
TOTAL	**R410,880**	**R3,179**	**R414,059**

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 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 2016, 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 three Trustees:

- Mr Khumalo (Chairperson) - Resigned 31 December 2015;
- Mr Odendaal - Commenced 5 April 2016;
- Mr Nethengwe - By invitation;
- Mr van Wyk - Resigned 30 November 2016;
- Ms Marekwa (Chairperson) - From 10 February 2016; and
- Ms Twetwa - Commenced 11 November 2015.

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:

- Ms Marekwa - By invitation;
- Mr Nsele (Chairperson);
- Mr Nethengwe - Commenced 5 April 2016;
- Ms Moloko - Commenced 5 April 2016;
- Mr Serfontein - By invitation; and
- Ms Temba - Commenced 5 April 2016.

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; and
- the best possible rate of return 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 since 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 three Trustees:

- Mr Schutte (Chairperson);
- Ms Jafta - Resigned 30 November 2016;
- Ms Molefe - Commenced 4 November 2015;
- Ms Mbana - Commenced 11 August 2016; and
- Mr van Wyk - Resigned 30 November 2016.

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

1.3.4 SCHEME EXECUTIVE PERSONNEL AND HEAD OF DEPARTMENTS

- Mr Mxenge: Principal Officer (Executive Personnel) - Resigned 30 November 2016
- Mr Sadiki: Chief Corporate Services and Acting Principal Officer (Executive Personnel) and Chief Corporate Services (Head of Department) - Commenced 27 June 2016
- Dr Gama: Chief Operations Officer (Head of Department) - Resigned 30 October 2016
- Dr Makkink: Medical Advisor and Acting Chief Operations Officer (Head of Department) - Commenced 7 July 2016
- Mr Bezuidenhout: Chief Finance Officer (Head of Department) - Deceased 19 May 2016
- Ms Motsepe: Finance Manager and Acting Chief Finance Officer (Head of Department) - Commenced 1 June 2016

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 may 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 reprocessing of claims and member and provider frustration. As of 31 December 2016, POLMED had 1,839 specialist doctors made up of 807 on the Preferred Providers Network and 1,032 as designated service providers.

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

- Medscheme Holdings (Pty) Ltd

Managed care services

- Medscheme Holdings (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 (Aquarium 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 (Ended 31 March 2016)
- Mazi Capital (Pty) Ltd - Passive Equity Managers
- Mergence Investment Managers - Active Equity Managers (Started 1 April 2016)

Actuaries
- NMG Consultants and Actuaries (Pty) Ltd

External Auditors
- PwC Inc.

Internal Auditors
- SizweNtsalubaGobodo Inc
- Medscheme Independent Internal Audit Division

c MEMBER EDUCATION AND AWARENESS

The business plan of the Scheme determined that at least 56,000 had to be reached during 2016. A communication plan and strategy were implemented in support of the objectives, as set out in the plan.

The Communications Team has undertaken several outreach and communication drives as reflected in the table below:

MEMBER OUTREACH	AS OF 31 DECEMBER 2016
Marketing	30,520
Health and wellness	15,375
Flu vaccines	14,345
SAPS student enrolment	9,090
Ad hoc	1,595
TOTAL	**71,371**

COMMUNICATION HITS	AS OF 31 DECEMBER 2016
POLMED website hit rate	324,979
Health Portal hit rate	29,817
POLMED Chat hit rate	27,467
SMS messages sent out	8,022,737
Emails sent out	4,961,313
Faxes sent out	1,098,366
TOTAL	**14,464,679**

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 of 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 Strategic Risks identified against the Strategic Objectives and the subsequent Inherent Risk versus Residual Risk distribution after applying the controls developed within the Scheme:

STRATEGIC OBJECTIVES	STRATEGIC RISKS IDENTIFIED FOR 2016	2016 INHERENT RISK (BEFORE APPLIED CONTROLS)	2016 RESIDUAL RISK (AFTER APPLIED CONTROLS)
a To ensure POLMED is a sustainable Scheme	1 Adverse decrease in solvency levels	25	10
	2 Fraud, corruption and gross misconduct	20	10
	3 Inadequate technology systems	25	8
	4 Inadequate Scheme governance and compliance	20	9
	5 Inadequate contingency management	15	6
b To ensure members are able to receive quality healthcare	6 Benefit design and structure not meeting member and Scheme needs	20	8
	7 Loss of specialised focus	12	2.4
	8 Failure to adapt to change	15	6
c To ensure sound relationships with stakeholders	9 Poor stakeholder relations	20	10
	10 Inadequate third-party provider management	25	10

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 PREVENTION, DETECTION AND RESPONSE

The Scheme continued the drive to fight fraud, waste and abuse by several fraud prevention and detection strategies, and inter alia also engaged in training and awareness.

The Forensic Team in partnership with the POLMED Communications Division were engaged in fraud awareness campaigns at POLMED wellness days, Student Intakes and Detective Training – a total number of 1,357 members were reached. An average of 174,690 main members were reached through the quarterly fraud awareness SMS campaigns.

The POLMED Fraud Risk and Forensics Division registered and analysed a total of 585 x cases for the period under review. From the analysis conducted the following amounts were recovered:

FORENSIC RECOVERIES

	ACKNOWLEDGMENT OF DEBT	OFFSET AGAINST CLAIMS	PAYMENTS RECEIVED
	R	R	R
2016: Q1	5,961,825	3,701,771	1,717,494
2016: Q2	6,527,198	1,772,542	1,111,324
2016: Q3	3,861,009	1,091,453	1,798,709
2016: Q4	4,510,967	2,992,649	1,518,317
2016	**20,860,999**	**9,558,415**	**6,145,844**

b FRAUD RESPONSE

The following mitigation actions were implemented by the Scheme:

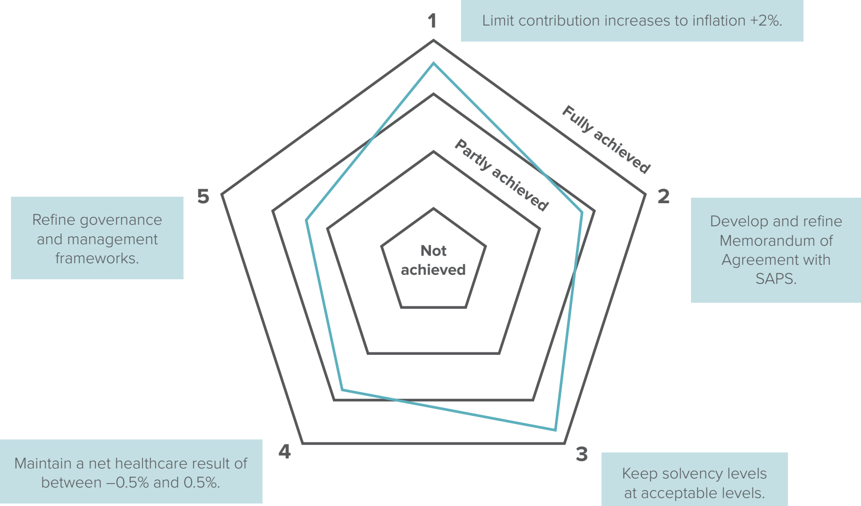
- direct payment to members instead of providers, referred to as indirect payment;
- fraud information shared with medical industry bodies, i.e. Healthcare Forensic Management Unit (HFMU), Health Professions Council of South Africa (HPCSA);
- providers that are not possible to rehabilitate were removed from the Scheme's established provider networks;
- amount owing by provider offset against future claims in terms of the Medical Schemes Act;
- direct recovery from providers; and
- civil and/or criminal cases lodged against providers at either their regulatory bodies and/or SAPS.

3 PERFORMANCE AGAINST STRATEGIC OBJECTIVES

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

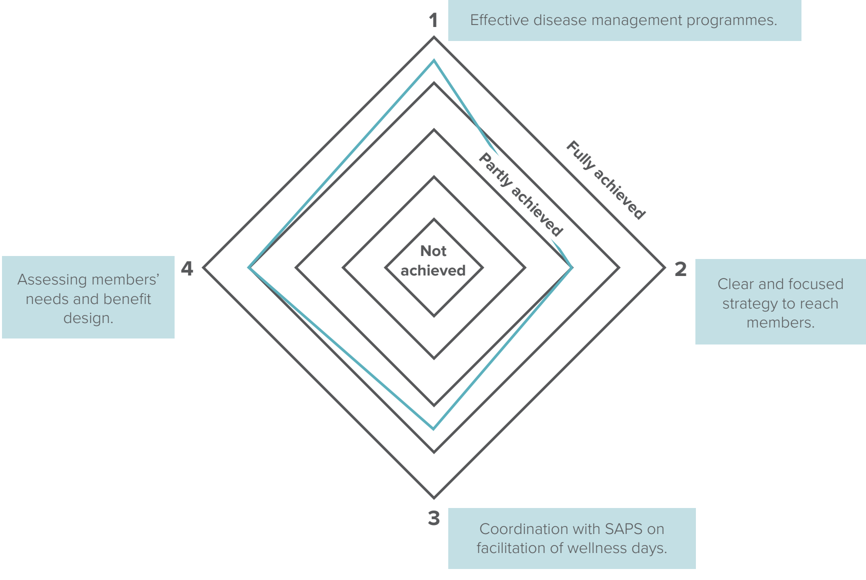
During the September 2016 Strategy Review workshop, a high level assessment was done to establish the progress made against POLMED's goals and strategies. The figures in this section indicate what progress has been made from September 2015 to September 2016 against every strategy identified.

3.1 GOAL 1 – TO ENSURE POLMED IS A SUSTAINABLE SCHEME



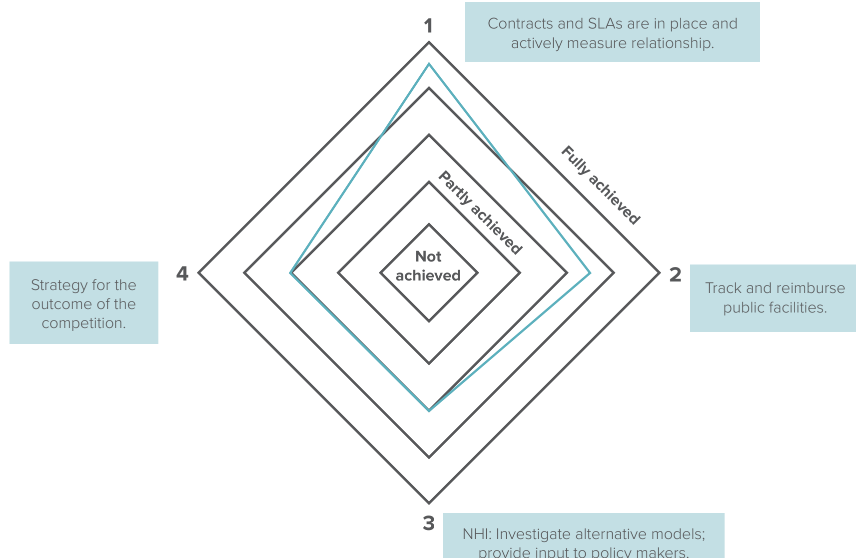
- Strategy 1 – POLMED limited the 2016 contribution increase to inflation +0.3% and therefore fully achieved this strategy.
- Strategy 2 – POLMED has drafted a Memorandum of Agreement with the South African Police Service (SAPS). This document has been delivered to SAPS and still needs to be signed and finalised.
- Strategy 3 – POLMED's solvency level remains at an acceptable level.
- Strategy 4 – POLMED's year-to-date net healthcare result is currently higher than –0.5%, however, that is well within our budget. The current trend resulted from the change in Administrators from 1 January 2016 where POLMED paid fees to both Administrators during the winding-down period until end April 2016. The net healthcare result will stabilise towards the end of 2016 in line with the budget and the forecast results confirms that this strategy will be achieved.
- Strategy 5 – POLMED is currently reviewing governance frameworks and improvements are being implemented as and where required.

3.2 GOAL 2 – POLMED'S GOAL IS TO ENSURE MEMBERS ARE ABLE TO RECEIVE QUALITY HEALTHCARE



- Strategy 1 – POLMED's approach to effective disease management includes effective and efficient programme management that will proactively identify high-risk members and measure outcomes of the managed care interventions not only via the claims analyses (process indicators), but also via clinical measures of patients.
- Strategy 2 – POLMED is conducting annual surveys to ensure that members are reached in an effective manner. POLMED's Communication Strategy gives clear directives on the ways to reach members and their beneficiaries more effectively, however, the member survey will only resume in 2017 in order to provide the new Administrator and members sufficient time to integrate and adapt to the new procedures.
- Strategy 3 – POLMED is currently coordinating wellness days with SAPS. Considering that POLMED/SAPS cannot currently provide this service in each province annually, expansion of this valuable programme needs to be considered.
- Strategy 4 – POLMED's 2016 benefit design was developed using the outcomes of the 2015 member survey to ensure the members' needs were taken into consideration during the benefit design process. POLMED adapts their benefits on an annual basis to ensure that the benefits are relevant and based on members' needs, and various analyses and information sources are used to support this. The member survey will however only resume in 2017 in order to provide the new Administrator and members sufficient time to integrate and adapt to the new procedures.

3.3 GOAL 3 – POLMED'S AIM IS TO ENSURE SOUND RELATIONSHIPS WITH STAKEHOLDERS



- Strategy 1 – POLMED has reviewed all contracts to ensure that they all have service level agreements (SLAs). A Contract Management Policy is in place, which is the framework aimed at ensuring that all our contracted service providers deliver on their contractual obligations as set out in the contract.
- Strategy 2 – POLMED currently pays all invoices received from public facilities, irrespective of the invoice's age. It will be important for POLMED to negotiate with state facilities in areas where members do not have access to private facilities and are forced to make use of state facilities.
- Strategy 3 – POLMED is currently monitoring the development around National Health Insurance (NHI), but has not investigated alternative reimbursement models. POLMED supports the Board of Healthcare Funders of Southern Africa (BHF) in providing input on a policy level.
- Strategy 4 – POLMED is currently monitoring the progress on the Competition Commission's outcome and will aim to perform an impact analysis once the outcome is available to the public.

The results of the Scheme's performance assessment indicate that all perspectives (sustainability, members, internal business process, and learning and growth) of the balanced scorecard containing the preceeding 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
N Jafta	18	18							4	4
G Marekwa	15	18			6	7	1	1		
L Mbana	8	18							3	3
I Molefe	17	18	4	4					4	4
KC Moloko	18	18					4	4		
NP Nethengwe	14	18			1	1	4	4		
T Nsele	15	18					4	5		
DV Odendaal	16	18			6	6				
S Schutte	17	18							3	4
G Serfontein	18	18	4	4			4	4		
A Shezi	14	18								
BP Temba (Buthelezi)	15	18					4	4		
NL Twetwa	18	18			7	7				
R van Wyk	10	18			4	7			4	4

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
	R	R	R	R
N Jafta	311,080	23,654	190,290	525,024
G Marekwa	186,318	12,769	24,997	224,084
L Mbana	176,566	12,769	18,971	208,306
I Molefe	354,904	39,236	155,499	549,639
KC Moloko	334,422	12,769	-	347,191
NP Nethengwe	291,500	18,292	800	310,592
T Nsele	332,189	12,769	41,969	386,927
S Schutte	-	12,769	7,118	19,887
G Serfontein	346,632	32,369	20,912	399,913
A Shezi	277,750	23,654	17,222	318,626
NL Twetwa	339,680	32,370	229,613	601,663
R van Wyk	265,606	32,370	44,241	342,217
DV Odendaal	310,794	21,484	9,410	341,688
BP Temba	315,766	29,177	10,774	355,717
	3,843,207	**316,451**	**771,816**	**4,931,474**

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 Service rates.

TRUSTEES REMUNERATION 2017

PROPOSED FEE

	2017	2016
	R	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 2015, the Scheme was not amongst the top 10 schemes in terms of remuneration paid to Trustees.

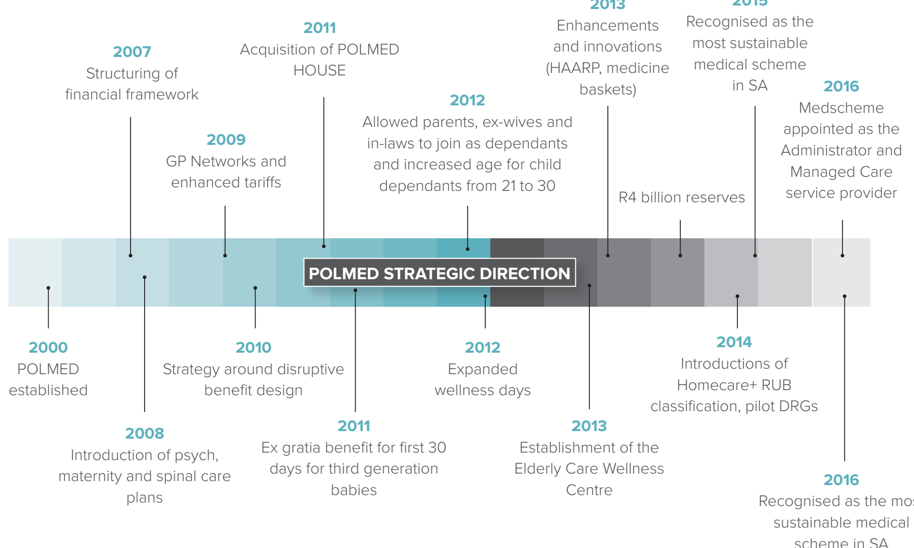
5 FUTURE PERFORMANCE OBJECTIVES

The specific strategic goals for 2017 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 scorecard 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 2016, extracted for the 2016 Integrated Report.

The Auditor has expressed an unqualified opinion on the Consolidated Financial Statements.

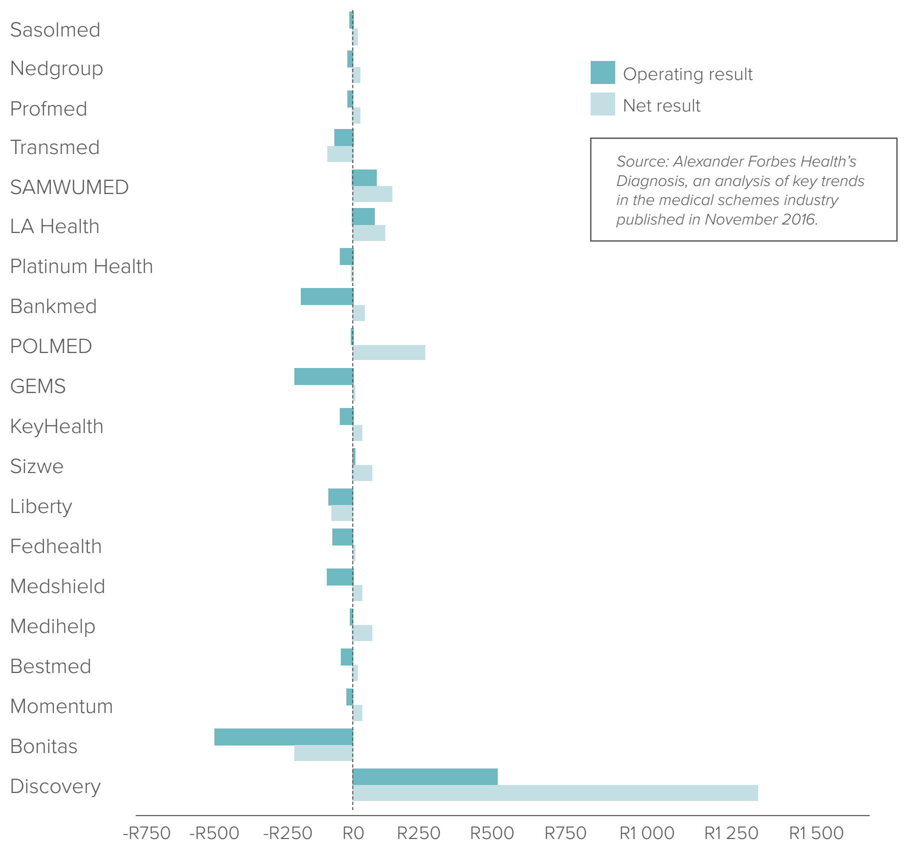
6.1 SUSTAINABILITY INDEX

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 2015. 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 graph below shows the financial performance of the top 10 open schemes and top 10 restricted schemes during 2015.

SCHEMES' FINANCIAL PERFORMANCE FOR 2015



Source: Alexander Forbes Health's Diagnosis, an analysis of key trends in the medical schemes industry published in November 2016.

The graph on the left shows the top 20 most sustainable medical schemes according to the 2016/2017 Alexander Forbes Health Diagnosis.

As seen in this graph, POLMED remains the most sustainable closed medical scheme in the market.

6.2 SUMMARY OF THE FINANCIAL PERFORMANCE

	2016 R	2015 R
Contributions collected	8,1bn	7,6bn
Net surplus	132m	229m
Solvency	50.4%	51.29%
Members' funds	4,1bn	4,0bn
Reserves per beneficiary	8,319	8,162

The 2016 Integrated Annual Report, including the highlights of the Audited Financial Statements, will be available at www.polmed.co.za from 10 July 2017.

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

The following areas of non-compliance with the Act were 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 becoming due.

Although the majority of contribution payments were made within the stipulated payment deadlines, there were a small number of instances relating to direct-paying members 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 follows 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 2016 the Scheme had indirect holdings in The Liberty Group Limited (R30,926,176) and Sanlam Limited (R17,576,524).

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. Notification of delayed payment and reason thereof was provided timeously to the providers.

Contravention of Section 32 and Rule 26.1.1:
In terms of Section 32 of the Medical Schemes Act 131 of 1998, as amended, the rules of a medical scheme and any amendment thereof shall be binding on the medical scheme concerned, its members, officers and on any person who claims any benefit under the rules or whose claim is derived from a person so claiming.

In terms of Scheme rule 26.1.1, the Annual General Meeting of members shall be held no later than 30 August of each year.

The Scheme had scheduled an Annual General Meeting on 14 July 2016. A court interdict, which prohibited the Annual General Meeting from proceeding, was served to the Scheme. The CMS granted an extension to hold the Annual General Meeting before 31 December, but it became logistically impossible.

The CMS has an exemption for the Scheme not to hold the Annual General Meeting for the 2016 financial year.

Contravention of Section 35(8)(a):
In terms of Section 35(8)(a) of the Medical Schemes Act 131 of 1998, as amended, a medical scheme shall not invest any of its assets in the business of or grant loans to an employer that participates in the medical scheme or any administrator or any arrangement associated with the medical scheme.

The Scheme granted a loan to Polmed Proprietary Limited, its subsidiary, to purchase an investment property.

The Scheme is in consultation with the CMS to explore the best possible approach to implement corrective measures which seeks to rectify the non-compliance.

Contravention of Section 35(6)(d):
In terms of Section 35(6)(d) of the Medical Schemes Act 131 of 1998, as amended, a medical scheme shall not by means of suretyship or any other form of personal security, whether under a primary or accessory obligation, give security in relation to obligations between other persons, without the prior approval of the Council or subject to such directives as the Council may issue.

The Scheme provided a letter of support to PPI as the subsidiary is technically insolvent. In terms of the Medical Schemes Act, CMS approval is required before such suretyship can be provided.

The Scheme is in consultation with the CMS to explore the best possible approach to implement corrective measures which seeks to rectify the non-compliance.

Contravention of Section 32 and Rule 13.3:
In terms of Section 32 of the Medical Schemes Act 131 of 1998, as amended, the rules of a medical scheme and any amendment thereof shall be binding on the medical scheme concerned, its members, officers and on any person who claims any benefit under the rules or whose claim is derived from a person so claiming.

In terms of Scheme rule 13.3, contributions shall be due monthly in advance and be payable by not later than the third day of each month. Where contributions or any other debt owing to the Scheme have not been paid within three (3) days of due date, the Scheme shall inform the member concerned and the employer in writing of such failure. In the event that the arrears are not paid within a period of grace of fourteen (14) days after notification, membership shall be suspended forthwith. In the event that the arrear contributions are not paid within thirty (30) days of suspension, membership of the relevant member shall terminate. Such membership shall only be reinstated after the payment of the contributions in arrears. No benefits shall be payable from the date of suspension until the date of reinstatement.

There were instances where members were suspended, but not terminated in line with the Scheme rules and credit control processes.

There was a delay in implementing the suspension and termination of delinquent members as a result of the take-on processes. Termination and suspension of membership was implemented in the third quarter of 2016. Numerous attempts were made to afford members an opportunity to make payment arrangement before terminations were made. Terminations have been made after year-end for members who had not made payment arrangements.

6.4 EXTRACTS FROM THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

PwC 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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	GROUP		SCHEME	
	2016	2015	2016	2015
	R	R	R	R
Assets				
Non-current assets				
Property and equipment	62,989,076	58,787,506	4,533,765	6,254,408
Financial assets at fair value through profit and loss	3,460,919,893	3,277,301,251	3,460,919,893	3,277,301,251
Investments in subsidiary	-	-	100	100
Loan to subsidiary	-	-	-	65,906,968
Operating lease asset	35,938	198,701	-	-
	3,523,944,907	**3,336,287,458**	**3,465,453,758**	**3,349,462,727**
Current assets				
Financial assets at fair value through profit and loss	766,306,543	381,309,845	766,306,543	381,309,845
Loan to subsidiary	-	-	58,800,000	-
Operating lease asset	100,770	92,266	-	-
Insurance and other receivables	129,289,738	155,530,527	129,095,301	155,578,025
Cash and cash equivalents	364,008,573	819,009,997	362,288,070	818,912,755
	1,259,705,624	**1,355,942,635**	**1,316,489,914**	**1,355,800,625**
Total assets	**4,783,650,531**	**4,692,230,093**	**4,781,943,672**	**4,705,263,352**
Funds and liabilities				
Members' funds				
Revaluation reserve	21,007,902	11,249,982	-	-
Accumulated funds	4,134,625,957	4,001,035,638	4,153,551,949	4,025,090,432
	4,155,633,859	**4,012,285,620**	**4,153,551,949**	**4,025,090,432**
Liabilities				
Non-current liabilities				
Operating lease liability	-	-	137,765	-
Current liabilities				
Operating lease liability	-	-	976,358	481,193
Outstanding claims provision	349,873,925	325,181,598	349,873,925	325,181,598
Insurance and other payables	275,896,166	352,690,857	275,157,094	352,438,111
Employee benefits	2,246,581	2,072,018	2,246,581	2,072,018
	628,016,672	**679,944,473**	**628,253,958**	**680,172,920**
Total liabilities	**628,016,672**	**679,944,473**	**628,391,723**	**680,172,920**
Total funds and liabilities	**4,783,650,531**	**4,692,230,093**	**4,781,943,672**	**4,705,263,352**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	GROUP		SCHEME	
	2016	2015	2016	2015
	R	R	R	R
Risk contribution income	**8,193,277,154**	**7,647,836,343**	**8,193,277,154**	**7,647,836,343**
Relevant healthcare expenditure	**(7,945,871,034)**	**(7,293,972,995)**	**(7,945,871,034)**	**(7,293,972,995)**
Net claims incurred	(7,794,447,013)	(7,179,518,456)	(7,794,447,013)	(7,179,518,456)
Risk claims incurred	(7,839,967,792)	(7,220,839,762)	(7,839,967,792)	(7,220,839,762)
Third-party claims recoveries	45,520,779	41,321,306	45,520,779	41,321,306
Net income on risk transfer arrangements	(14,017,488)	19,113,049	(14,017,488)	19,113,049
Risk transfer arrangement fees/premiums paid	(195,825,062)	(186,890,848)	(195,825,062)	(186,890,848)
Recoveries from risk transfer arrangements	181,807,574	206,003,897	181,807,574	206,003,897
Accredited managed care: management services	(137,406,533)	(133,567,588)	(137,406,533)	(133,567,588)
Gross healthcare results	**247,406,120**	**353,863,348**	**247,406,120**	**353,863,348**
Administration expenditure: benefit management services	(42,820,730)	(39,118,758)	(42,820,730)	(39,118,758)
Administration expenses	(350,085,136)	(322,302,667)	(350,727,691)	(322,207,938)
Net impairment losses	(35,856,508)	(1,404,888)	(44,655,539)	(1,404,888)
Net healthcare result	**(181,356,254)**	**(8,962,965)**	**(190,797,840)**	**(8,868,236)**
Other income	**334,505,812**	**257,255,065**	**338,818,596**	**261,227,042**
Investment income	335,497,077	293,073,888	341,541,647	298,668,793
Other realised and unrealised gains and losses	(3,351,967)	(42,045,445)	(3,351,967)	(42,045,445)
Other operating income	2,360,702	6,226,622	628,916	4,603,694
Other expenditure	**(19,559,239)**	**(19,642,761)**	**(19,559,239)**	**(19,642,761)**
Asset management fees	(19,559,239)	(19,642,761)	(19,559,239)	(19,642,761)
Net surplus for the year	**133,590,319**	**228,649,339**	**128,461,517**	**232,716,045**
Other comprehensive income				
Gains on revaluation of building	9,757,920	-	-	-
Total comprehensive income for the year	**143,348,239**	**228,649,339**	**128,461,517**	**232,716,045**

CONSOLIDATED STATEMENT OF CHANGES IN FUNDS AND RESERVES FOR THE YEAR ENDED 31 DECEMBER 2016

	REVALUATION RESERVE	ACCUMULATED FUNDS	MEMBERS' FUNDS
	R	R	R
Group			
Balance at 1 January 2015	11,249,982	3,772,386,298	3,783,636,280
Net surplus for the year	-	228,649,340	228,649,340
Balance at 1 January 2016	11,249,982	4,001,035,638	4,012,285,620
Net surplus for the year	-	133,590,319	133,590,319
Other comprehensive income	9,757,920	-	9,757,920
Total comprehensive income for the year	9,757,920	133,590,319	143,348,239
Balance at 31 December 2016	21,007,902	4,134,625,957	4,155,633,859
Scheme			
Balance at 1 January 2015	-	3,792,374,387	3,792,374,387
Net surplus for the year	-	232,716,045	232,716,045
Balance at 1 January 2016	-	4,025,090,432	4,025,090,432
Net surplus for the year	-	128,461,517	128,461,517
Balance at 31 December 2016	-	4,153,551,949	4,153,551,949

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	GROUP		SCHEME	
	2016	2015	2016	2015
	R	R	R	R
Cash flows from operating activities				
Cash used in operations	(72,016,109)	181,006,461	(86,814,003)	176,165,196
Net cash from/(used in) operating activities	**(72,016,109)**	**181,006,461**	**(86,814,003)**	**176,165,196**
Cash flows from investing activities				
Acquisition of property and equipment	(555,936)	(857,216)	(532,841)	(835,428)
Proceeds on disposal of property and equipment	11,687	145,427	11,687	145,427
Loans advanced to subsidiary	-	-	7,106,968	(703,658)
Acquisition of investments	(3,695,514,815)	(2,739,989,694)	(3,695,514,815)	(2,739,989,694)
Proceeds on maturity of investments	3,047,460,817	2,290,062,856	3,047,460,817	2,290,062,856
Investment income	265,612,932	254,712,973	271,657,502	260,307,878
Net cash from/(used in) investing activities	**(382,985,315)**	**(195,925,654)**	**(369,810,682)**	**(191,012,619)**
Net (decrease)/increase in cash and cash equivalents	**(455,001,424)**	**(14,919,193)**	**(456,624,685)**	**(14,847,423)**
Cash and cash equivalents at the beginning of the year	819,009,997	833,929,190	818,912,755	833,760,178
Cash and cash equivalents at the end of the year	**364,008,573**	**819,009,997**	**362,288,070**	**818,912,755**

SOLVENCY RATIO CALCULATIONS

	SCHEME	
	2016	2015
	R	R
Accumulated funds per Statement of Financial Position	4,153,551,951	4,025,090,432
Less: Unrealised gain on revaluation of investments at fair value through profit or loss	(23,383,364)	(102,822,022)
	4,130,168,587	**3,922,268,410**
Annualised gross contributions	8,193,277,154	7,647,836,343
Accumulated funds ratio	50.41%	51.29%

6.5 OPERATIONAL STATISTICS

SCHEME OPERATIONAL ACTIVITIES PER BENEFIT OPTION – 2016

	MARINE	AQUARIUM
Number of members at year-end	124,027	50,092
Number of beneficiaries at year-end	355,513	142,639
Average number of members for the year	124,067	49,101
Average number of beneficiaries for the year	354,186	137,560
Beneficiaries per member at 31 December	1.87	1.85
Average contributions per member per month	R3,921	R1,370
Average contributions per beneficiary per month	R1,931	R678
Average relevant healthcare expenditure incurred per member per month	R4,616	R1,787
Average relevant healthcare expenditure incurred per beneficiary per month	R1,610	R627
Relevant healthcare expenditure as a percentage of contributions	97.70%	92.58%
Net healthcare deficit	R170,576,999	R20,220,839
Average non-healthcare expenditure incurred per member per month	R223.00	R177.00
Non-health expenditure as a percentage of gross contributions	4.71%	9.16%
Average age	27.08	21.84
65 years+ ratio	2.94%	0.65%

SCHEME OPERATIONAL ACTIVITIES PER BENEFIT OPTION – 2015

	MARINE	AQUARIUM
Number of members at year-end	124,560	46,703
Number of beneficiaries at year-end	357,651	133,903
Average number of members for the year	125,945	46,095
Average number of beneficiaries for the year	360,739	131,489
Beneficiaries per member at 31 December	1.87	1.87
Average contributions per member per month	R4,441	R1,806
Average contributions per beneficiary per month	R1,547	R630
Average relevant healthcare expenditure incurred per member per month	R4,260	R1,652
Average relevant healthcare expenditure incurred per beneficiary per month**	R1,484	R587
Relevant healthcare expenditure as a percentage of contributions**	95.96%	91.50%
Net healthcare deficit	(R21,268,539)	(R12,400,303)
Average non-healthcare expenditure incurred per member per month**	R190.20	R139.94
Non-health expenditure as a percentage of gross contributions**	4.28%	7.75%
Average age	28.70	21.63
65 years+ ratio	3.63%	0.63%

**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.

TOP TEN CHRONIC DISEASE AUTHORISATIONS

DIAGNOSIS	NUMBER OF CASES
Hypertension	56,583
Diabetes mellitus II	24,517
Hyperlipidaemia	23,811
Asthma	16,030
Cardiac failure and cardiomyopathy	13,890
Thrombo-embolic prophylaxis	13,518
Depression	12,854
Allergic rhinitis	10,125
Diabetes mellitus I	8,822
Hypothyroidism	8,242

TOP TEN INDIVIDUAL CLAIMERS

COST DRIVER	RAND VALUE
ICU, ventilation and medication	R1,402,954.88
ICU, ventilation and medication	R1,042,461.94
ICU, ventilation and medication	R783,216.63
ICU, ventilation, multiple theatre times and medication	R816,518.06
ICU, ventilation, multiple theatre times and medication	R1,173,456.75
ICU, ventilation, dialysis and medication	R931,201.78
High-care stay, multiple theatre events and high cost medication	R1,084,578.30
ICU, ventilation, multiple theatre events and high cost medication	R925,905.75
ICU, ventilation and medication	R916,763.69
ICU, ventilation and medication	R460,739.53

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POLMED Client Service Call Centre
0860 765 633 OR 0860 POLMED
Fax: 0860 104 114