# 2012

## PROFMED ANNUAL INTEGRATED REPORT

Healthcare for Professionals

PROFMED

# Notice

OF ANNUAL GENERAL MEETING 2013

**Notice to members**

Notice is hereby given that the 42nd Annual General Meeting of the members of Profmed will be held at Profmed Place, 15 Eton Road, Parktown, Johannesburg on Wednesday 5 June 2013 at 15:30.

**Agenda**

1. To receive and adopt the annual financial statements for the year ended 31 December 2012 (including the reports of the trustees, the auditors and the Profmed Audit Committee).

2. To re-appoint PricewaterhouseCoopers Inc. as the auditors of Profmed for 2013/14 in terms of rule 27 of the rules of Profmed.

3. To retrospectively confirm the remuneration of trustees for 2012.

4. To retrospectively confirm the increase of 3.5% per annum in the remuneration of trustees for the period 1 January 2013 to the date of the 2013 Annual General Meeting.

5. To approve the increase of 7% per annum in the remuneration of trustees for the period commencing on the date of the 2013 Annual General Meeting and ending on the date of the 2014 Annual General Meeting.

6. To announce the election of three (3) trustees in accordance with the rules of Profmed.

7. To transact such other business as may be transacted at the Annual General Meeting (subject to the rules of Profmed, and in particular rule 28.1.6, and the provisions of the Medical Schemes Act No. 131 of 1998, as amended).

With regard to agenda items 3 to 5 above, to date trustee remuneration has been approved retrospectively at the Annual General Meeting for the prior financial year. The Board of Trustees, however, felt it prudent that the trustee remuneration be approved annually in advance.

By order of the Board of Trustees.

Graham R Anderson
Principal Officer and Chief Executive

*29 April 2013*

# Contents

# *Chairman's* REPORT

I am pleased to present to you this Annual Integrated Report. The report sets out the achievements of the Scheme for the year under review, prime of which is the outstanding results as at 31 December 2012. Fifty-three years after its inception, Profmed is stronger and healthier than ever and remains the medical scheme of choice for graduate professionals.

The migration to the new system resulted in less than desirable service to our members in 2012, but we are confident that service levels have been restored, and exceeded in many areas. The Board remains committed to delivering service excellence and to improving our members' experience of the Scheme. The Board's vision is to provide quality of service that is befitting of our professional members.

On matters of governance, the Regulator is taking a firm stance on medical schemes with poor governance practices and this is demonstrated by the increasing number of schemes being placed under curatorship. Good governance remains a focal point for Profmed. Consequently, Profmed subscribes to and actively enforces the implementation of the governance principles contained in the King Report on Governance for South Africa (King III) as well as the requirements of the Medical Schemes Act and other legislation that is relevant to the business and dealings of the Scheme. We wish to assure our members that Profmed relentlessly pursues governance excellence and views governance as a foundational pillar to the success and future sustainability of the Scheme.

The Scheme's approach to governance is borne out by yet another unqualified audit report of the Scheme's financial affairs. The exceptional results are testimony to wise investing and prudent financial management, which have ensured the Scheme's financial success. It is of great satisfaction to the Board that Profmed remains in a sound financial position to provide cover for our members when they need it most. Further, in 2012 Profmed's claims-paying ability rating by Global Credit Ratings was upgraded to AA-, which is an outstanding rating in the medical scheme industry. This achievement should be of further comfort to members. The rating was awarded, amongst other achievements, based on Profmed's successive net surpluses over the last couple of years as well as the Board and management's comprehensive understanding of the Scheme's profile and risks.

Another achievement in 2012 was the purchase of the building in which the Executive Office of the Scheme is housed. Not only has this purchase enhanced Profmed's investment portfolio, but it provides stability of tenure for the Executive Office.

Profmed remains one of the few medical schemes that is increasing in membership and our strategies will continue to evolve and adapt to maximise growth while maintaining a healthy solvency ratio. The tough economic environment and shrinking medical scheme industry have, however, impacted Profmed's ability to accelerate growth.

Nevertheless, as a medical scheme with a professional membership and a Board of Trustees comprised of professionals, Profmed is well positioned for the future.

In closing, I wish to thank you, our members, for your loyalty to Profmed, especially during the system migration in 2012. I also wish to thank my colleagues on the Board of Trustees, the Principal Officer and staff for their tireless efforts to ensure that Profmed remains the medical scheme of choice for professionals.

**Ms Esmé Prins-Van den Berg**
Chairman

*11 April 2013*

# Report SCOPE AND BOUNDARIES

Profmed's 2012 report is the Scheme's third annual integrated report and aims to provide a concise overview of the Scheme, integrating and connecting important information about strategy, risks and opportunities and relating them to the financial, economic, social and environmental performance for the reporting period 1 January to 31 December 2012. Material and relevant issues that impact the Scheme have been identified to create this report.

## Use of guidelines

Profmed's policies are aligned to the recommendations set out in the King Report on Governance for South Africa (King III) incorporating guidance from the Global Reporting Initiative (GRI) G3. The financial accounting policies are aligned to International Financial Reporting Standards (IFRS) with guidance from the Medical Schemes Accounting Guide, issued by the South African Institute of Chartered Accountants (SAICA).

## Materiality

Material topics are defined as those reflecting significant economic, environmental and social impacts or those that would influence the decisions of the Scheme's stakeholders. The material topics disclosed in this report have been informed by regulatory obligations, internal financial and non-financial reports and voluntary disclosure standards.

## Stakeholder inclusiveness

The principle of stakeholder inclusiveness has been employed to ensure that disclosures are material and relevant to the legitimate interests of Profmed's stakeholders. The primary vehicles informing stakeholders are the Scheme's annual integrated report, an interactive website, newsletters, benefit communication, Scheme rules, claims statements and individual communication where necessary. The Scheme's main stakeholders are identified as Profmed members, future Profmed members, healthcare service providers, a third-party administrator, managed care service providers, employees and the Council for Medical Schemes.

## Data measurement

Data measurement techniques are replicable and information is not reported if the margin for error is likely to substantially influence the ability of stakeholders to make informed decisions about the Scheme's performance. Measurement techniques, estimates and underlying assumptions are described where it is materially necessary to do so.

## Assurance

The Scheme's external auditors, PricewaterhouseCoopers Inc., have audited the annual financial statements and their report is presented on page 19. The Scheme's independent actuaries have been consulted where estimates and projections are presented. The internal audit function of the Scheme's administrator performed a limited review of the non-financial information and qualitative data presented in this report. Global Credit Rating Co. has independently assessed the Scheme's claims-paying ability.

# Organisational
OVERVIEW

## 1. Description of the Medical Scheme

### 1.1 Terms of registration

Profmed is a not-for-profit restricted medical scheme registered in terms of the Medical Schemes Act 131 of 1998 (the Act), as amended. Registration no. 1194.

### 1.2 Healthcare options within Profmed

During the year the following Scheme options were available exclusively to graduate professionals:

- ProPinnacle
- ProSecure Plus
- ProSecure
- ProActive Plus
- ProActive.

## 2. Registered address and third-party service provider details

### 2.1 Registered office address and postal address

| | |
|---|---|
| Profmed Place | P.O. Box 1004 |
| 15 Eton Road | Houghton |
| Parktown | 2041. |
| Johannesburg | |

### 2.2 Medical Scheme administrator during the year

Professional Medical Scheme Administrators Proprietary Limited

*(Accreditation no. Admin 37)*

| | |
|---|---|
| 269 Von Willigh Avenue | Private Bag X1031 |
| Block D, Corporate Park 66 | Lyttelton |
| Die Hoewes | 0140. |
| Centurion | |

### 2.3 Auditors

PricewaterhouseCoopers Inc.

| | |
|---|---|
| 32 Ida Street | P.O. Box 35296 |
| Menlo Park | Menlo Park |
| Pretoria | 0102. |

### 2.4 Investment managers

Investec Wealth & Investment

*(Financial Service Provider no. 8905)*

| | |
|---|---|
| 100 Grayston Drive | P.O. Box 785700 |
| Sandown | Sandton |
| Sandton | 2146. |

**2.5 Actuaries**

NMG Consultants and Actuaries Proprietary Limited

*(Terminated 21 November 2012, effective 28 February 2013)*

NMG House
411 Main Avenue
Randburg

P.O. Box 3075
Randburg
2125.

Towers Watson Proprietary Limited

*(Appointed 21 November 2012, effective 1 March 2013)*

1st Floor, 44 Melrose Boulevard
Melrose Arch
Johannesburg
2196

Postnet Suite 154
Private Bag X1
Melrose Arch
2076.

**2.6 Attorneys**

Knowles Husain Lindsay Incorporated

4th Floor, The Forum
2 Maude Street
Sandown
Sandton

P.O. Box 782687
Sandton
2146.

# Report
## OF THE BOARD OF TRUSTEES AND THE PRINCIPAL OFFICER

The Board of Trustees hereby presents its report for the year ended 31 December 2012.

### 1. Overview of the Scheme and its activities

The Report of the Board of Trustees is one of the documents that is presented together with, and accompanies, the annual financial statements. Accordingly, references have been made directly to the page numbers, figures, notes and other statistics contained in the accompanying financial statements. In addition, the same abbreviations for certain names have been used consistently in this report and in the financial statements.

The results of the Scheme's operations are set out on page 21 of the annual financial statements. In the period under review, the ratio of relevant healthcare expenditure as a percentage of net contribution income was 86.34% (2011: 82.35%). Managed care service expenses were 2.25% of net contribution income (2011: 2.24%), while administration expenditure (inclusive of impairment losses) was 10.05% of contribution income (2011: 9.83%).

#### 1.1 Accumulated funds ratio

The accumulated funds ratio is calculated as follows:

| | **2012 R'000** | 2011 R'000 |
|---|---|---|
| Total members' funds per Statement of Financial Position | **579 750** | 463 764 |
| Less: Reserve for unrealised investment gains | **(95 821)** | (43 636) |
| Accumulated funds per Regulation 29 of the Act | **483 929** | 420 128 |
| | | |
| Annual contribution income per Statement of Comprehensive Income | **931 155** | 866 699 |
| | | |
| Accumulated funds ratio calculated as the ratio of accumulated funds/gross annual contributions x 100 | **51.97%** | 48.47% |
| Minimum ratio required by Regulation 29 of the Act | **25.0%** | 25.0% |

Average premium increases with effect 1 January were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| ProPinnacle | 9.26% | 7.63% | 13.25% |
| ProSecure Plus | 9.28% | 7.64% | 13.25% |
| ProSecure | 9.42% | 7.18% | 13.00% |
| ProActive Plus | 8.10% | 6.76% | 11.25% |
| ProActive | 7.94% | 6.23% | 11.25% |

#### 1.2 Strategy and risk

The Board of Trustees meets at least once a year to determine the strategy of the Scheme. Risks that could impact the Scheme within the strategy period under review are taken into account when setting the strategy. The Governance, Strategy and Risk (GSR) Committee is responsible for overseeing the implementation of the strategy and regularly assesses the Scheme's performance against the defined strategy and reports to the Board on the Scheme's progress.

Profmed has a robust Operational and Business Risk (OBR) Report, which is evaluated and monitored quarterly by the Board of Trustees as well as the Audit Committee, Executive Committee and GSR Committee. Each of these forums provides input to the OBR Report relating to their spheres of responsibility. The Medical Committee does not review the OBR Report but provides input to the report on any matters of risk pertaining to its scope of responsibility.

The GSR Committee assesses the mitigation controls of each risk to ascertain the impact of the risk to the Scheme.

## 2. Review of the accounting period's activities

### 2.1 Operational statistics per benefit option

| | ProPinnacle | ProSecure Plus | ProSecure | ProActive Plus | ProActive | Total Scheme |
|---|---|---|---|---|---|---|
| **2012** | | | | | | |
| **Non-financial highlights** | | | | | | |
| Number of members at year-end | 2 140 | 2 428 | 7 655 | 5 053 | 9 434 | 26 710 |
| Average number of members for the year | 2 181 | 2 428 | 7 686 | 4 916 | 9 522 | 26 734 |
| Number of beneficiaries at year-end | 4 313 | 5 139 | 17 964 | 11 306 | 24 950 | 63 672 |
| Average number of beneficiaries for the year | 4 424 | 5 146 | 18 115 | 10 987 | 25 262 | 63 935 |
| Dependant ratio at year-end | 1.02 | 1.12 | 1.35 | 1.24 | 1.64 | 1.38 |
| Average age of beneficiaries per option | 52.99 | 45.63 | 42.62 | 32.82 | 35.63 | 39.09 |
| Pensioner ratio per benefit option (65 years and older) | 34.11% | 23.37% | 17.87% | 5.40% | 7.40% | 13.1% |
| **Financial highlights** | | | | | | |
| Average net contributions per beneficiary per month | R3 117 | R1 880 | R1 471 | R850 | R718 | R1 214 |
| Average relevant healthcare expenditure per beneficiary per month | R3 111 | R1 878 | R1 397 | R591 | R466 | R1 048 |
| Average non-healthcare expenditure per beneficiary per month | R186 | R178 | R160 | R168 | R142 | R158 |
| Relevant healthcare expenditure as a percentage of gross contributions (claims ratio) | 99.76% | 99.92% | 94.98% | 69.55% | 64.69% | 86.33% |
| Non-healthcare expenditure as a percentage of gross contributions | 5.96% | 9.46% | 10.87% | 19.81% | 19.78% | 12.98% |
| | | | | | | |
| **2011** | | | | | | |
| **Non-financial highlights** | | | | | | |
| Number of members at year-end | 2 265 | 2 381 | 7 589 | 4 409 | 9 602 | 26 246 |
| Average number of members for the year | 2 298 | 2 385 | 7 557 | 4 185 | 9 607 | 26 032 |
| Number of beneficiaries at year-end | 4 659 | 5 145 | 18 250 | 9 882 | 25 811 | 63 747 |
| Average number of beneficiaries for the year | 4 749 | 5 132 | 18 239 | 9 385 | 25 929 | 63 434 |
| Dependant ratio at year-end | 1.06 | 1.16 | 1.40 | 1.24 | 1.69 | 1.43 |
| Average age of beneficiaries per option | 51.1 | 43.5 | 41.0 | 31.7 | 33.9 | 37.6 |
| Pensioner ratio per benefit option (65 years and older) | 29.19% | 19.30% | 15.32% | 4.47% | 6.01% | 11.20% |
| **Financial highlights** | | | | | | |
| Average net contributions per beneficiary per month | R2 952 | R1 730 | R1 363 | R745 | R672 | R1 139 |
| Average relevant healthcare expenditure per beneficiary per month | R2 933 | R1 720 | R1 195 | R517 | R387 | R957 |
| Average non-healthcare expenditure per beneficiary per month | R173 | R163 | R146 | R149 | R131 | R144 |
| Relevant healthcare expenditure as a percentage of gross contributions (claims ratio) | 99.37% | 99.41% | 87.76% | 69.40% | 57.86% | 82.35% |
| Non-healthcare expenditure as a percentage of gross contributions | 5.86% | 9.42% | 10.71% | 20.00% | 19.49% | 12.71% |

### 2.2 Operational statistics for the Scheme

| | **2012** | 2011 |
|---|---|---|
| Average accumulated funds and reserves per member | R21 705 | R17 670 |
| Investment return | 20.4% | 5.1% |

## 3. Members' funds and reserve accounts

Movements in the members' funds and reserve accounts are set out in the Statement of Changes in Funds and Reserves on page 23. There were no unusual movements for the trustees to explain.

## 4. Outstanding claims

Movements in the outstanding claims provision are set out in Note 8 to the financial statements. The outstanding claims provision is made up of estimated claims incurred up to 31 December 2012 that had not been reported to the Scheme as at that date. The prior year under-provision of R7.2 million was due to the system migration, which changed the payment patterns during the first half of 2012. Limited information was available for payment patterns on the new system to establish the cause of under-provision.

## 5. Actuarial services

The Scheme's actuaries were consulted regarding the determination of the contribution and benefit levels. They also assisted in determining the assumptions used in the calculation of the outstanding claims provision noted above. This is fully explained in the notes to the financial statements.

## 6. Outsourcing of the Scheme's administration

Professional Medical Scheme Administrators Proprietary Limited continued to perform the administration function of the Scheme for the year.

## 7. Subsequent events

There have been no adjusting or non-adjusting events that have occurred between the accounting date and the date of this report that affected the 2012 results.

# Corporate GOVERNANCE

## 1. Management

### 1.1 Board of Trustees in office during the year under review

| | |
|---|---|
| Ms EL Prins-Van den Berg | Chairman |
| Dr MM Bhikhoo | Vice-Chairman |
| Dr AD Behrman | (re-elected 6 June 2012) |
| Mr HP du Toit | (appointed 1 December 2012 to fill a casual vacancy) |
| Mr E Huggett | (terminated 23 August 2012) |
| Dr AP Newell | (appointed 6 June 2012) |
| Dr E Nkosi | |
| Dr RD Shuttleworth | |
| Mr A Tait | (terminated 23 August 2012) |
| Mr RN Theunissen | |
| Dr EJ Thorburn | (resigned 6 June 2012; re-appointed 1 December 2012 to fill a casual vacancy) |
| Ms MM van Garderen. | |

### 1.2 Principal Officer

Mr GR Anderson

### 1.3 Corporate governance

The Profmed Charter and rules of the Scheme address the qualifications, skills, performance and fit and proper criteria of trustees as well as key office bearers of the Scheme. The Profmed Charter incorporates the Code of Conduct and the Conflict of Interest Policy, and all three documents are reviewed annually by the Board of Trustees. The Code of Conduct sets out the ethics requirements for the trustees and conflicts of interest declared are dealt with in terms of the Conflict of Interest Policy. The Nominations Committee, which is an *ad hoc* committee of the Board, scrutinises nominations received by the Scheme for both appointed and elected trustees to ensure that nominees are fit and proper and have no conflict of interest, and possess the necessary skills, experience and qualifications to fulfil the fiduciary duties of a trustee.

The Profmed Charter, which is in line with King III, is reviewed annually by the Board of Trustees to ensure its relevance and that it is kept up to date in terms of new legislation and developments relating to corporate governance.

*Internal control*

Based on the results of the formal documented review of the Scheme and the administrator's system of internal control and risk management, including the design, implementation and effectiveness of internal financial controls conducted by the internal audit function of the administrator during the year, considering information and explanations given by management and discussions with the external auditor on the results of the audit, assessed by the Audit Committee, the Board of Trustees is of the opinion that the Scheme and the administrator's system of internal control and risk management is effective and that the internal financial controls form a sound basis for the preparation of reliable financial statements. The Board's opinion is supported by the Audit Committee.

In order to migrate to the new administration IT platform, development staff had to be given unrestricted access to the system. This control deficiency was identified as a risk by the Scheme and specific procedures were performed to ensure that no irregularities had occurred. Service levels during the migration were not in accordance with the service level agreements and penalties were levied on the administrator in accordance with the service level agreements.

### 1.4 Board proceedings

The Board met six times during 2012 (2011: seven times). The trustees have full and unrestricted access to relevant information. The trustees are elected or appointed from the Profmed membership.

## 2. Attendance at trustee and committee meetings

The following schedule sets out Board of Trustee and committee meeting attendance. Trustee remuneration is disclosed in Note 16 to the annual financial statements:

| | Board Meetings | | Board Strategy Session | | Executive Committee | | Audit Committee | | Governance, Strategy and Risk Committee | | Medical Committee | | Remunera-tion Committee | | *Ad Hoc* Meetings |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Name** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **B** |
| Ms EL Prins-Van den Berg | 6 | 6 | 1 | 1 | 4 | 4 | 3 | 3[†] | 4 | 3[‡] | 4 | 2[‡] | 3 | 3 | 67 |
| Mr D C Arnold* | | | | | | | | | | | | | 2 | 2 | |
| Dr MM Bhikhoo | 6 | 6 | 1 | 1 | 4 | 4 | | | | | 4 | 4 | | | 27 |
| Dr AD Behrman | 6 | 5 | 1 | 1 | | | | | | | 4 | 2 | | | 1 |
| Mr MJ Brown* | | | | | | | 3 | 3 | | | | | 3 | 3 | 2 |
| Mr HP du Toit[§] | 0 | 0 | | | | | | | 0 | 0 | | | | | |
| Mr E Huggett | 5 | 5 | 0 | 0 | | | 2 | 2 | | | | | | | 4 |
| Mr KG Mockler* | | | | | | | 3 | 3 | | | | | 3 | 3 | 6 |
| Dr AP Newell | 3 | 3 | 1 | 1 | | | | | | | 2 | 2 | | | 1 |
| Dr E Nkosi | 6 | 6 | 1 | 1 | | | | | 4 | 4 | | | | | 5 |
| Dr Y Omar Carrim* | | | | | | | 3 | 3 | | | | | | | 1 |
| Dr RD Shuttleworth | 6 | 6 | 1 | 1 | 4 | 4 | | | | | 4 | 4 | | | 10 |
| Mr A Tait | 5 | 5 | 0 | 0 | | | | | 2 | 2 | | | | | 4 |
| Mr RN Theunissen | 6 | 6 | 1 | 1 | 4 | 4 | 3 | 3 | 4 | 4 | | | | | 16 |
| Dr EJ Thorburn | 3 | 3 | | | | | | | | | 2 | 2 | | | 2 |
| Ms MM van Garderen | 6 | 6 | 1 | 1 | | | 1 | 1 | 4 | 4 | | | | | 5 |

A – Total number of meetings that could have been attended
B – Actual number of meetings attended
* – Independent committee member
† – By invitation
‡ – *Ex officio*
§ – Appointed 22 November 2012

## 3. Audit Committee

The Scheme has an established Audit Committee, which was set up in accordance with Section 36 of the Medical Schemes Act 1998, as amended. The Audit Committee is mandated by the Board of Trustees by means of written terms of reference, which determine its membership, authority and duties. The main functions and responsibilities of the Audit Committee are to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems and financial reporting practices. The external auditors formally report to the Committee on critical findings arising from auditing activities. The Audit Committee is satisfied that the Scheme has optimised the assurance coverage obtained from management and internal and external assurance providers in accordance with an appropriate combined assurance model.

The Audit Committee is independent and the majority of the members, including the chairman, are not trustees of the Scheme or directors of its administrator. The composition of the Audit Committee is in terms of the regulatory requirements of Section 36 of the Medical Schemes Act 1998, as amended, and not in terms of King III requirements. The Committee met on three occasions during the course of the year.

The Audit Committee comprised:

| | |
|---|---|
| Mr KG Mockler (Chairman) | Independent member |
| Mr MJ Brown | Independent member |
| Mr E Huggett | Trustee (outgoing 23 August 2012) |
| Dr Y Omar Carrim | Independent member |
| Mr RN Theunissen | Trustee |
| Ms MM van Garderen | Trustee (incoming 23 August 2012). |

The Chairman of the Board, the Principal Officer, Chief Financial Officer of the administrator, and internal and external auditors attend the Committee meetings by invitation and have unrestricted access to the chairman of the Committee.

The effectiveness of the Committee and its individual members is assessed annually. The external and internal auditors meet separately with the Committee at least once a year without the presence of management. Management meets at least once a year with the Committee without the presence of the auditors.

The Audit Committee discharged its responsibilities for the year under review as follows:

- Examined and reviewed the Scheme's financial statements prior to submission to and approval by the Board, as well as the Annual Integrated Report;
- Reviewed the effectiveness of internal controls;
- Recommended to the annual general meeting, with the approval of the Board, the appointment of the external auditor, after considering the independence of the proposed auditor;
- Approved the external auditor's terms of engagement, the audit plan and audit fees;
- Approved the provision of any non-audit services by the external auditor;
- Reviewed the adequacy and effectiveness of the system for monitoring compliance with laws and regulations;
- Reviewed the performance of the internal audit function;
- Reviewed the finance function;
- Provided independent and objective oversight of the financial, operational and strategic risks.

## 4. Governance, Strategy and Risk Committee

The Scheme has an established Governance, Strategy and Risk (GSR) Committee. The Committee is mandated by the Board of Trustees by means of written terms of reference, which determine its membership, authority and duties. The main functions and responsibilities of the Committee are to assist the Board of Trustees in its implementation of governance processes, the setting of strategic intent and assessment and management of risks and the impact thereof on the Scheme.

The GSR Committee comprised:

| | |
|---|---|
| Mr RN Theunissen (Chairman) | Trustee |
| Mr HP du Toit | Trustee (incoming 22 November 2012) |
| Dr E Nkosi | Trustee |
| Ms EL Prins-Van den Berg | Chairman of the Board of Trustees (*ex officio*) |
| Mr A Tait | Trustee (outgoing 23 August 2012) |
| Ms MM van Garderen | Trustee. |

The GSR Committee discharged its responsibilities for the year under review as follows:

- Ensured that appropriate governance processes were in place and monitored compliance with all relevant legislative and regulatory requirements;
- Monitored the implementation of the strategy compiled by the Board and scheduled strategic planning sessions as and when appropriate at the instruction of the Board;
- Identified and categorised industry and other business risks and monitored the management of the risks;
- Attended to other relevant matters referred to it.

The Committee is responsible for overseeing the accuracy and relevance of the Operational and Business Risk (OBR) Report. Risks are identified by the Board and the Board committees and are analysed in terms of the likelihood of their occurrence and impact to the Scheme. The Committee assesses the rating of each risk and effectiveness of the mitigating controls. Section 1.3 of the Corporate Governance report provides further details in this regard.

## 5. Executive Committee

The Scheme has an established Executive Committee. The Committee is mandated by the Board of Trustees by means of written terms of reference, which determine its membership, authority and duties. The main functions and responsibilities of the Committee are to assist the Board of Trustees in ensuring the quality, integrity and reliability of the management of the Scheme. It also supports the Principal Officer in the day-to-day management of the Scheme.

The Executive Committee comprises the Chairman and Vice-Chairman of the Board and the chairmen of the Medical Committee and the GSR Committee.

The Executive Committee comprised:

| | |
|---|---|
| Ms EL Prins-Van den Berg (Chairman) | Chairman of the Board of Trustees |
| Dr MM Bhikhoo | Vice-Chairman of the Board of Trustees |
| Dr RD Shuttleworth | Chairman of the Medical Committee |
| Mr RN Theunissen | Chairman of the GSR Committee. |

The Executive Committee discharged its responsibilities for the year under review as follows:

- Reviewed the performance of the administrator and other outsourced parties to assess their efficiency, appropriateness and cost-effectiveness;
- Considered general operational issues in order to provide support to the Principal Officer and the Executive Office;
- Monitored marketing and communication to, amongst others, members, potential members, brokers, regulators, service providers and outsourced partners;
- Managed reserves to ensure the solvency ratio remained within the targets set by the Board and the statutory requirements;
- Maintained oversight of the functions of the Executive Office and monitored compliance with the requirements of the Medical Schemes Act 131 of 1998, the rules of the Scheme, instructions of the Board and any other statutory/regulatory requirements or directives;
- Made recommendations to the Remuneration Committee in respect of remuneration of the Board, Board committees and the Principal Officer;
- Monitored the performance of the investment strategy adopted by the Board;

- Reviewed the performance of the asset managers and compliance with Schedule B to the Regulations in terms of the Medical Schemes Act 131 of 1998;
- Reviewed the performance of the Principal Officer;
- Apprised the Board of Trustees of the Principal Officer's performance appraisal by the Executive Committee and remuneration approved by the Remuneration Committee.

## 6. Medical Committee

The Scheme has an established Medical Committee. The Committee is mandated by the Board of Trustees by means of written terms of reference, which determine its membership, authority and duties. The main functions and responsibilities of the Committee include assisting the Board of Trustees in setting clinical protocols and procedures for appropriate and cost-effective funding of members' benefits.

The Medical Committee comprised:

| | |
|---|---|
| Dr RD Shuttleworth (Chairman) | Trustee |
| Dr AD Behrman | Trustee |
| Dr MM Bhikhoo | Vice-Chairman of the Board of Trustees |
| Dr AP Newell | Trustee (incoming 7 June 2012) |
| Dr EJ Thorburn | Trustee (outgoing 7 June 2012; incoming 22 November 2012) |
| Ms EL Prins-Van den Berg | Chairman of the Board of Trustees (*ex officio*). |

The Medical Committee discharged its responsibilities for the year under review as follows:

- Reviewed the performance and quarterly reports of the managed healthcare providers and ensured compliance with the service level agreements;
- Reviewed and approved clinical protocols as proposed by the medical advisor as well as by the managed care providers;
- Considered *ex gratia* requests and reported any requests granted in the Medical Committee report to the Board;
- Participated in the benefit design to ensure clinical appropriateness, quality of care and cost-effectiveness;
- Considered appeals from members;
- Provided support to the medical/clinical advisor;
- Attended to any other relevant matters referred to it.

## 7. Remuneration Committee and Remuneration Policy

The Scheme has an established independent Remuneration Committee. The Committee is mandated by the Board of Trustees by means of written terms of reference, which determine its membership, authority and duties. The main functions and responsibilities of the Committee are to assist the Board of Trustees in setting the policy for, and determining the remuneration of the trustees, committee members and the Principal Officer.

The Committee comprised three independent members with relevant expertise and experience, and the Chairman of the Board of Trustees, as follows:

| | |
|---|---|
| Mr KG Mockler (Chairman) | Independent member |
| Mr DC Arnold | Independent member (incoming 7 June 2012) |
| Mr MJ Brown | Independent member |
| Ms EL Prins-Van den Berg (non-voting) | Chairman of the Board of Trustees. |

The Remuneration Committee discharged its responsibilities for the year under review as follows:

- Recommended the general policy on executive management (which includes the Principal Officer), Board and committee remuneration;
- Recommended the remuneration package of the Principal Officer;
- Recommended the fees and other allowances and the policy with regard to the reimbursement of expenses relating to Board and Board committee members.

The Remuneration Policy of the Board and committees recognises that most persons occupying such positions sacrifice income from their professional practices to do so. Accordingly, remuneration must be sufficient to attract the appropriate calibre of people to make themselves available.

In order to ensure the best service to Profmed members, the Remuneration Policy recognises the need to remunerate the Principal Officer and staff of the Executive Office in such a way as to attract and retain persons of above average ability.

*Guaranteed component*

All permanent employees, irrespective of level, receive a guaranteed element of remuneration. This comprises a fixed cash portion as well as compulsory benefits (medical scheme and retirement fund membership). The target level for the guaranteed portion of the remuneration package is set at the 50$^{th}$ percentile of the industry. Increases in the guaranteed component are determined in line with market increases in the 50$^{th}$ percentile, whilst annual performance-related assessments may cause remuneration increases at a higher rate such that superior performance by an individual will result in the employee earning above the 50$^{th}$ percentile for his or her position. The level of this remuneration is also benchmarked to the general market.

*Short-term incentive component*

The Scheme uses short-term incentives to achieve stipulated annual objectives, thereby ensuring that a portion of pay is variable and linked to performance. The performance-related remuneration of employees relates directly to their function and may be allocated annually at the discretion of the Scheme. Employees in a sales function also receive a variable monthly remuneration linked directly to their productivity. No long-term incentive schemes are available to employees.

## 8. Investment policy of the Scheme

The Scheme's investments are subject to Regulation 30 of the Medical Schemes Act, read with Annexure B, and the Scheme's investment strategy complies with these regulations. The investment strategy is regularly reviewed by the Board of Trustees and was reviewed, revised and approved during the financial year.

The targeted investment growth is CPI + 3% per annum measured over a rolling three-year period and the investment manager is to perform in the top quartile measured against a peer group of medical scheme investment managers. It was agreed that the Scheme's annual operating budget should not be funded by more than 1% of total investment income. The Scheme's investment manager's mandate was to invest in selected discretionary portfolios.

Regulation 30 of the Medical Schemes Act, read with Annexure B, stipulates that medical schemes may invest only 40% of reserves in equities. In June 2011, the Council for Medical Schemes granted exemption to Profmed to invest up to 50% of its reserves in South African equities. Profmed has also received exemption to invest in the holding companies of medical scheme administrators.

## 9. Management of insurance risk

The primary insurance activity carried out by the Scheme assumes the risk of loss from members and their dependants that are directly subject to the risk. This risk relates to the health of the Scheme members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, protocols and the monitoring of emerging issues.

The Scheme 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 analyses, scenario analyses 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 are 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 with established statistical techniques. There have been no changes to assumptions used to measure insurance assets and liabilities that have a material effect on the financial statements and there are no terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the Scheme's cash flows.

Medical schemes are required to fund prescribed minimum benefits (PMBs) in full at invoice price in terms of the interpretation by the Council for Medical Schemes of Regulation 8 of the Medical Schemes Act No. 131 of 1998, as amended. The Scheme was previously funding PMB claims in terms of its rules, however, the Board of Trustees subsequently agreed to comply with the Council for Medical Schemes' interpretation. This poses a financial risk to the Scheme as there is no regulated tariff for providers.

## 10. Broad-Based Black Economic Empowerment (BB BEE)

Profmed is not compliant with the requirements of the Broad-Based Black Economic Empowerment Act, No. 53 of 2003, largely due to the restrictions of the Medical Schemes Act. Nevertheless, the Board of Trustees fully endorses and supports the principles of transformation and the ethos of the BB BEE Act and is committed to implementing the principles relevant to pillars of the BB BEE Act in which Profmed could become compliant, i.e. Board composition, staff complement and procurement.

## 11. Non-compliance with Medical Schemes Act 131 of 1998 and Regulations

### 11.1 Contribution income not received after three days of becoming due

In terms of Section 26(7) of the Medical Schemes Act 131 of 1998, contribution income shall be received within three days of becoming due. There were instances where the Scheme did not receive all contributions within three days of becoming due. This is mainly as a result of members paying contributions after the third day of them becoming due, members having insufficient funds in their bank accounts at the time of collection and members exiting without informing the Scheme. Contributions not received within three days are actively pursued.

### 11.2 Financial soundness of benefit options

In terms of Section 33(2) of the Medical Schemes Act 131 of 1998, each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound. For the year, three of the options had deficits. The Scheme has taken this factor into account in the review of the 2013 contribution rates and business plan. The limitations placed on the contribution increases by the Council for Medical Schemes, together with the consideration of the potential impact on members and the Scheme in terms of buy-down risk and loss of members, contributed to the Scheme not being able to achieve option self-sufficiency.

### 11.3 Payment of claims within 30 days after receipt

In terms of Section 59(2) of the Medical Schemes Act 131 of 1998, a valid claim submitted to the Scheme should be paid out within 30 days after the day on which the claim was received. Some claims were paid after 30 days during the year under review as a result of the migration to the new administration system.

### 11.4 Investment in medical scheme administrators

In terms of Section 35(8) of the Medical Schemes Act 131 of 1998, a medical scheme shall not invest any of its assets in a medical scheme administrator. The Scheme, through one of its unit trust investments, has an investment in a medical scheme administrator's holding company. The Scheme has received exemption from this section of the Act.

# Sustainability

Profmed's corporate sustainability is seen as the creation and protection of value for all stakeholders through effectively managing financial and non-financial factors impacting the Scheme's economic performance. Profmed's vision is to address the healthcare needs of professionals through appropriate benefits.

## 1. Key sustainability indicators

| | **2012** | 2011 |
|---|---|---|
| Number of principal members at year-end | **26 710** | 26 246 |
| Number of beneficiaries at year-end | **63 672** | 63 747 |
| Reserves per principal member | **R21 705** | R17 670 |
| Solvency ratio | **51.98%** | 48.47% |
| (Negative)/positive cash flow | **(R1 757 000)** | R44 441 000 |
| Number of claims lines assessed | **3 423 816** | 3 314 592 |
| Number of Council for Medical Schemes complaints received | **45** | 57 |
| Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations | **–** | – |
| Paper used in member communication material | **5.5 tons** | 7.8 tons |
| Direct energy consumption at the Executive Office | **253 mw** | 236 mw |
| Total water consumption at the Executive Office | **2 773 kl** | 2 968 kl |
| Number of permanent employees | **25** | 23 |

## 2. Value-added statement

| | **2012 R'000** | 2011 R'000 |
|---|---|---|
| Value added | | |
| Contribution income | **931 155** | 866 699 |
| Net realised investment income | **61 834** | 17 874 |
| Investment income – unrealised | **52 185** | 6 974 |
| Administration and acquisition expenses | **(19 280)** | (16 198) |
| | **1 025 894** | 875 348 |
| Value allocated to stakeholders | | |
| Profmed members: Healthcare benefits to service providers | **803 947** | 713 726 |
| Third-party administration service providers and managed care organisations | **88 317** | 77 657 |
| Broker service fees | **6 279** | 5 531 |
| Employee remuneration | **11 326** | 10 634 |
| Increase in members' funds and reserves | **116 025** | 67 800 |
| | **1 025 894** | 875 348 |

## 3. Strategic objectives

One of Profmed's long-term strategies is to grow the membership base of the Scheme. By growing the membership base the risk pool will be enlarged, reducing the effects of high-impact claims. This enables the Scheme to provide healthcare benefits to its members in the long term.

During the current period under review 2 457 (2011: 2 503) new members joined and 1 993 (2011: 1 745) members resigned from the Scheme. Management continually seeks ways to improve the member retention process to ensure member attrition is minimised.

The solvency ratio is the ratio of Scheme reserves as a percentage of its annual contribution income. At year-end the Scheme's solvency ratio increased to 51.98%, which equates to R21 705 of reserves per member. The solvency ratio is placed under pressure by the eroding effects of medical inflation, resulting in annual contribution increases.

Growth of the membership base also adversely affects the solvency ratio as it results in increased contribution income and effectively reduces the reserves per member due to the fact that the reserves are spread over a larger number of members. Please refer to section 1.1 of the Report of the Board of Trustees and the Principal Officer for the calculation of the Scheme's solvency ratio.

The Scheme has consulted with independent actuaries to project the solvency ratio for the next five years and has used two membership growth and two membership loss scenarios as presented in the tables below. A 1% poorer claims experience in 2013 than currently budgeted has been allowed for in the scenarios below. The age profile of the membership has been relatively stable over the past few years, with Profmed attracting younger members to the Scheme, which has counteracted the expected ageing of the current membership. Should this continue in future, contribution increases can be expected to equal claims inflation on each option.

Scenario1:

| Year ending 31 December | Annual net membership growth of 2% across all options | | Annual net membership loss of 2% across all options | |
|---|---|---|---|---|
| | Expected average number of principal members | Expected solvency | Expected average number of principal members | Expected solvency |
| 2014 | 27 667 | 49.53% | 26 582 | 51.55% |
| 2016 | 28 785 | 47.40% | 25 529 | 53.43% |
| 2018 | 29 948 | 45.34% | 24 518 | 55.36% |

Scenario 2:

| Year ending 31 December | Annual net membership growth of 10% across all options | | Annual net membership loss of 10% across all options | |
|---|---|---|---|---|
| | Expected average number of principal members | Expected solvency | Expected average number of principal members | Expected solvency |
| 2014 | 29 837 | 45.93% | 24 412 | 56.13% |
| 2016 | 36 103 | 37.81% | 19 774 | 68.96% |
| 2018 | 43 684 | 31.11% | 16 017 | 84.69% |

The projections provided above indicate that even high membership growth will sustain a sufficient solvency level, and that Profmed has sufficient reserves to sustain an annual membership growth of 10% over a period of five years.

## 4. Administration

The Board of Trustees and management of the Scheme are responsible for ensuring that administration of the Scheme is effective and that the administrator performs in line with strict service level agreements. To maintain this and to ensure sustainability for the future, it was necessary to implement a new administration system. As a result of the system migration, service levels during the year were not in accordance with those stipulated in the service level agreements and the Scheme levied penalties against the administrator. Service levels are monitored quarterly by the Board and the Executive Committee in conjunction with the Principal Officer.

The table below illustrates the impact of the administrator and the managed care providers in properly applying the rules of the Scheme and reflects the value added by third-party service providers.

| 2012 | PMSA | MediKredit | Opticlear | Dental Risk Company | Total |
|---|---|---|---|---|---|
| Total claims processed | R795 085 563 | R124 963 945 | R17 465 815 | R60 165 407 | R997 680 731 |
| Impact of intervention | R162 467 803 | R28 125 175 | R11 334 825 | R33 996 402 | R235 924 205 |
| Intervention % (of total) | 20.4% | 22.5% | 64.9% | 56.5% | 23.6% |
| Cost to provide intervention | R73 764 238 | R6 647 864 | R413 610 | R1 251 881 | R82 077 593 |

**5. Future sustainability of the Scheme**

There are a number of challenges facing the Scheme that could pose a threat to its future sustainability. Profmed is an ageing scheme and it is imperative that younger members are attracted to the Scheme to reduce the average age of its membership. To achieve this, Profmed has implemented an aggressive growth strategy within the Scheme's target market.

A potential financial risk to the Scheme is the interpretation by the Council for Medical Schemes of Regulation 8 of the Medical Schemes Act that schemes are required to fund prescribed minimum benefit (PMB) conditions at full invoice price. To mitigate the risk to the Scheme, managed healthcare principles and protocols are applied to the funding of PMBs, in terms of the Medical Schemes Act.

The implementation of National Health Insurance (NHI) poses a challenge to the Scheme and to the medical scheme industry in that those members who are unable to fund membership of both a medical scheme and NHI might exit the Scheme. However, NHI will be phased in over the next 10 to 15 years and as such the Board of Trustees is of the opinion that this is a low risk in the short to medium term. Also, the nature of the profile of the membership of Profmed is such that it is unlikely that the Scheme will experience high volumes of member resignations due to NHI, which positions Profmed well to meet this challenge.

**6. Health risk management programme**

Profmed broadened its risk management approach by offering the Multiply Wellness Programme to its members. The programme encourages a healthy lifestyle, which is expected to have a positive impact on the Scheme's claims experience.

# Statement

## OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

The trustees are responsible for the preparation, integrity, and fair presentation of the Annual Integrated Report of Profmed. The annual financial statements, presented on pages 21 to 51, have been prepared in accordance with International Financial Reporting Standards and the Medical Schemes Act of South Africa and include amounts based on judgements and estimates made by management.

The trustees consider that in preparing the annual financial statements, they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all International Financial Reporting Standards that they consider to be applicable have been followed.

The trustees are satisfied that the information contained in the annual financial statements fairly presents the results of operations for the year and the financial position of the Scheme at year-end. The trustees are also responsible for the other information included in the Annual Integrated Report and are responsible for both its accuracy and its consistency with the annual financial statements.

The trustees have responsibility for ensuring that proper accounting records are kept. The accounting records disclose with reasonable accuracy the financial position of the Scheme to enable the trustees to ensure that the annual financial statements comply with the relevant legislation.

During the migration period certain key controls were not effective and new controls had to be implemented to accommodate the changes in processes. The Scheme's internal and external auditors performed additional procedures and provided assurance that the lack of certain controls were not to the detriment of the Scheme. Profmed generally operated in a good control environment, which is now well documented and regularly reviewed. This incorporates risk management and internal control procedures.

The going-concern basis has been adopted in preparing the annual financial statements. The trustees have no reason to believe that the Scheme will not be a going concern in the foreseeable future, based on forecasts and available cash resources. This view is endorsed by the external auditor and the Audit Committee. These annual financial statements support the viability of the Scheme.

The Scheme's external auditors, PricewaterhouseCoopers Inc., have audited the annual financial statements and their report is presented on page 19.

The annual financial statements were approved by the Board of Trustees on 11 April 2013 and are signed on its behalf by:

| | | |
|---|---|---|
| Chairman | Trustee | Principal Officer |

*11 April 2013*

# *Independent Auditor's* REPORT TO THE MEMBERS OF PROFMED

We have audited the annual financial statements of Profmed, which comprise the Statement of Financial Position as at 31 December 2012, and the Statements of Comprehensive Income, Changes in Funds and Reserves and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 21 to 51.

**Trustees' responsibility for the financial statements**

The Scheme's trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Medical Schemes Act, Act 131 of 1998, as amended, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Profmed as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Medical Schemes Act, Act 131 of 1998, as amended.

**Report on other legal and regulatory requirements**

As required by the Council for Medical Schemes, we report the following instance of non-compliance with the Medical Schemes Act, which we consider to be material:

We draw attention to Note 26 in the financial statements, which indicates that Profmed did not comply with Section 33(2) of the Medical Schemes Act, Act 131 of 1998, as amended, as some of the benefit options were not self-supporting in terms of membership and financial performance.

PricewaterhouseCoopers Inc.
Director: GJ Kapp
Registered Auditor
Sunninghill

*24 April 2013*

# Report OF THE PROFMED AUDIT COMMITTEE

Information regarding the composition, attendance and responsibilities of the Audit Committee, together with the other information relating to its activities, is provided on pages 9 and 10 of this report.

The Audit Committee previously adopted formal terms of reference, which were approved by the Board of Trustees. The terms of reference were reviewed and approved by the Board of Trustees during the year under review. The Committee conducted its affairs and discharged its responsibilities in compliance with the terms of reference.

## External auditor

The Committee satisfied itself that the auditor was independent. In consultation with management, the Committee agreed to the engagement letter, audit plan and audit fees for the year under review. It approved the terms of an agreement to carry out non-audit services.

## Financial statements and accounting policies and practices

The Committee reviewed the accounting policies and practices and the financial statements and was satisfied that they were appropriate and complied with International Financial Reporting Standards (IFRS).

## Internal financial controls

As a result of the migration from one operating system to another, some controls did not operate satisfactorily during the year. The Committee is satisfied that this did not have an adverse effect on the Scheme and that management took the necessary corrective action. The internal auditors have been tasked with ensuring that the system of internal controls is operating satisfactorily.

## Integrated reporting

At its meeting on 14 March 2013, the Committee recommended to the Board the approval of the Annual Integrated Report, which includes the annual financial statements. The Board's statement on the going-concern status of the Scheme, which appears in the Statement of Responsibility on page 18, is supported by the Committee.

## Governance of risk

The Board has assigned oversight of the Scheme's risk management function to the Committee. The Committee satisfied itself that the Scheme has implemented an effective policy and plan for risk management.

## Internal audit

The Committee satisfied itself that the internal audit function of the administrator operated effectively. The annual audit plan relating to the Scheme was approved by the Committee.

## Finance function

The Committee satisfied itself of the appropriateness of the expertise, adequacy of resources and experience of senior members of management of the Scheme and of the management of the administrator responsible for the finance function.

KG Mockler
Chairman: Audit Committee

*14 March 2013*

# Statement

OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

| | Notes | 2012<br>R'000 | 2011<br>R'000 |
|---|---|---|---|
| **Assets** | | | |
| Non-current assets | | 516 520 | 358 999 |
| | | | |
| Property, plant and equipment | 2 | 19 323 | 552 |
| Available-for-sale financial assets | 4 | 497 197 | 358 447 |
| | | | |
| Current assets | | 120 805 | 166 007 |
| | | | |
| Available-for-sale financial assets | 4 | 105 595 | 139 317 |
| Accounts receivable | 5 | 1 817 | 1 370 |
| Cash and cash equivalents | 6 | 13 393 | 25 320 |
| | | | |
| Total assets | | 637 325 | 525 006 |
| | | | |
| **Liabilities** | | | |
| Current liabilities | | 57 575 | 61 281 |
| | | | |
| Accounts payable | 7 | 20 169 | 36 155 |
| Outstanding claims provision | 8 | 37 406 | 25 126 |
| | | | |
| Total liabilities | | 57 575 | 61 281 |
| | | | |
| Total net assets | | 579 750 | 463 725 |
| | | | |
| **Net assets** | | | |
| Members' funds and reserves | | 579 750 | 463 725 |
| | | | |
| Accumulated funds | | 483 929 | 420 089 |
| Revaluation reserve | | 95 821 | 43 636 |
| | | | |
| Members' funds and reserves | | 579 750 | 463 725 |

# Statement

OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

| | Notes | 2012<br>R'000 | 2011<br>R'000 |
|---|---|---|---|
| **Risk contribution income** | | 931 155 | 866 699 |
| | | | |
| **Relevant healthcare expenditure** | 9 | (803 947) | (713 726) |
| Risk claims incurred | | (803 947) | (713 726) |
| | | | |
| Risk claims incurred | 9 | (804 164) | (714 818) |
| Third-party claim recoveries | 9 | 217 | 1 092 |
| | | | |
| **Gross healthcare result** | | 127 208 | 152 973 |
| | | | |
| Managed care: Management services | 10 | (20 964) | (19 381) |
| Administration expenditure | 11 | (93 624) | (85 185) |
| Broker service fees | 12 | (6 279) | (5 531) |
| Net impairment losses on healthcare receivables | 23.3 | - | (4) |
| Net healthcare result | | 6 341 | 42 872 |
| | | | |
| **Other income** | | 61 911 | 20 551 |
| Investment income | 13 | 61 834 | 20 471 |
| Sundry income | 14 | 77 | 80 |
| | | | |
| **Other expenditure** | | (4 412) | (2 597) |
| Asset management fees | 15 | (4 412) | (2 597) |
| | | | |
| Net surplus for the year | | 63 840 | 60 826 |
| | | | |
| **Other comprehensive income** | | | |
| Revaluation reserve for available-for-sale financial assets | | 52 185 | 6 974 |
| Fair value adjustment on available-for-sale investments | 4 | 52 185 | 6 974 |
| | | | |
| **Total comprehensive income for the year** | | 116 025 | 67 800 |

# Statement

OF CHANGES IN FUNDS AND RESERVES FOR THE YEAR ENDED 31 DECEMBER 2012

| | Accumulated funds R'000 | Revaluation reserve for available-for-sale financial assets R'000 | Total members' funds and reserves R'000 |
|---|---|---|---|
| **Balance at 1 January 2011** | 359 263 | 36 662 | 395 925 |
| | | | |
| Total comprehensive income for the year | 60 826 | 6 974 | 67 800 |
| Surplus for the year | 60 826 | – | 60 826 |
| Other comprehensive income | – | 6 974 | 6 974 |
| | | | |
| **Balance at 31 December 2011** | 420 089 | 43 636 | 463 725 |
| | | | |
| Total comprehensive income for the year | 63 840 | 52 185 | 116 025 |
| Surplus for the year | 63 840 | – | 63 840 |
| Other comprehensive income | – | 52 185 | 52 185 |
| | | | |
| **Balance at 31 December 2012** | 483 929 | 95 821 | 579 750 |

# Statement

OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

| | Notes | 2012<br>R'000 | 2011<br>R'000 |
|---|---|---|---|
| Cash flow from operating activities | | | |
| Cash (utilised)/generated from operations | 17 | (1 757) | 44 441 |
| *Net cash (utilised)/generated from operating activities* | | (1 757) | 44 441 |
| | | | |
| Cash flow from investing activities | | | |
| Acquisition of property, plant and equipment | 2 | (19 116) | (174) |
| Proceeds on disposal of property, plant and equipment | | – | 7 |
| Capital contribution | 4 | (45 339) | (46 100) |
| Proceeds from sale of investments | 4 | 47 500 | – |
| Reclassification of investments to cash and cash equivalents | | (23 879) | (16 349) |
| Interest | | 26 326 | 20 471 |
| Dividends | 13 | 4 338 | – |
| *Net cash generated from investing activities* | | (10 170) | (42 145) |
| | | | |
| Net (decrease)/increase in cash and cash equivalents | | (11 927) | 2 296 |
| | | | |
| Cash and cash equivalents at beginning of year | | 25 320 | 23 024 |
| Cash and cash equivalents at end of year | 6 | 13 393 | 25 320 |

## 1. Summary of accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 1.1 Basis of preparation

The financial statements of the Scheme have been prepared in accordance with International Financial Reporting Standards (IFRS) and the manner required by the Medical Schemes Act of South Africa. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets to fair values.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Scheme's management to exercise judgement in the process of applying the Scheme's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 8 and Note 24.

### 1.2 Changes to accounting policy and disclosures

*New and amended standards adopted by the Scheme*

There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Scheme.

*New and amended standards or interpretations not relevant to the Scheme and amendments to relevant standards where the amendment is not early adopted or relevant to the Scheme*

- Improvements to IFRSs (issued May 2012)
- IFRS 1 – First-time adoption on Government loans (amendment)
- IFRS 7 – Financial Instruments: Disclosures – Asset and liability offsetting (effective 1 January 2013) (amendment)
- IFRS 9 – Financial instruments (1 January 2015)
- IFRS 10 – Consolidated financial statements (1 January 2013)
- IFRS 11 – Joint arrangements (1 January 2013)
- IFRS 12 – Disclosures of interests in other entities (1 January 2013)
- IFRS 13 – Fair value measurement (1 January 2013)
- Amendment to the transition requirements in IFRS 10 – Consolidated financial statements, IFRS 11 – Joint arrangements, and IFRS 12 – Disclosure of interests in other entities
- IAS 1 – Presentation of financial statements, on presentation of items of other comprehensive income (amendment)
- IAS 19 – Employee benefits – changes to defined benefit plan recognition
- IAS 27 – Separate financial statements (1 January 2013)
- IAS 28 – Investment in associates (1 January 2013)
- IAS 32 – Offsetting financial assets and liabilities (1 January 2014) (amendment).

### 1.3 Property, plant and equipment

Land and buildings comprise an office building which is partly owner occupied and stated at historical cost less the accumulated depreciation of the building. Land is not depreciated. Other property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the carrying amount when it is probable that future economic benefits associated with the asset will flow to the Scheme and the cost of the item can be measured reliably. Repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation on buildings, furniture and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives. Depreciation on leasehold improvements is calculated using the straight-line method to allocate their cost over the period of the lease agreement.

The estimated maximum useful lives of the assets are:

| | |
|---|---|
| Buildings | 30 years |
| Office furniture | 10 years |
| Office equipment | 3 years |
| Leasehold improvements | 3 years. |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate. Gains and losses on disposals are determined by comparing realisable proceeds with carrying amounts. These are included in the Statement of Comprehensive Income as Sundry income.

Where components of an item of furniture and equipment have different useful lives they are accounted for as separate items. There were no changes in the useful lives from prior years.

### 1.4 Financial instruments

Financial assets and liabilities are recognised when the Scheme becomes party to the contractual provisions of the instrument (the trade date). The Scheme classifies its financial assets into two categories, namely, Accounts receivable and Available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. The Scheme determines the classification of its financial assets at initial recognition.

*Initial recognition of financial instruments*

All financial instruments are initially recognised at fair value, which represents the consideration receivable or given, plus direct transaction costs. Regular purchases and sales of financial instruments are recognised on trade date, which is the date on which the Scheme commits to purchase or sell the instruments. Subsequent to initial recognition, financial instruments are measured as set out in the following paragraphs.

*Accounts receivable*

Accounts receivable are non-derivative financial assets that arise from transactions with members and suppliers, and have fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest rate method. A provision for impairment is raised when there is objective evidence that the Scheme will not be able to collect all amounts due according to the original terms of receivables.

*Accounts receivable from the Road Accident Fund*

The timing and monetary value of recoveries from the Road Accident Fund are considered to be uncertain and therefore debtors are not raised for amounts receivable at year-end. Amounts received during the year are deducted from relevant healthcare expenditure (Note 9) as part of Third-party claim recoveries.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the Scheme intends to dispose of them within twelve months of the Statement of Financial Position date. Subsequent to initial recognition, available-for-sale financial assets are carried at fair values. Changes in the fair values of financial assets classified as available-for-sale are recognised directly in the Scheme's Revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously recognised in Accumulated funds are transferred to the Statement of Comprehensive Income and disclosed as realised gains on disposal of available-for-sale investments. Interest on available-for-sale financial assets, calculated using the effective interest method, is recognised as Investment income in the Statement of Comprehensive Income. Dividends on available-for-sale equity instruments are recognised as Investment income in the Statement of Comprehensive Income when the Scheme's right to receive payments is established.

The fair values of quoted financial assets are based on bid prices at Statement of Financial Position date as quoted daily on a regulated exchange. Investments in collective investment schemes are valued at the unit price at year-end. If the market for a financial asset is not active, the Scheme establishes fair value by using valuation techniques. The Scheme did not have any financial assets that did not trade in an active market for the period under review.

For financial assets carried at fair value, the allocation of fair value measurements into the fair value hierarchy is reflective of the significant inputs used in making the measurements. The fair value hierarchy is based on the following levels:

Level 1: Where inputs are determined directly by reference to published price quotations (unadjusted) in an active market for identical instruments;

Level 2: Where inputs other than published price quotations included in Level 1 that are observable for assets, either directly (i.e. as prices) or indirectly (i.e. derived from prices), are used;

Level 3: Where the fair values are determined using a valuation technique based on assumptions that are not supported by observable market data.

**1.5 Impairment of financial assets**

The Scheme assesses at each Statement of Financial Position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (loss event) and that loss event has an adverse impact on the estimated cash flows from the asset that can be reliably measured.

An asset is impaired if its carrying amount is greater than its recoverable amount. The recoverable amount of all assets, excluding available-for-sale investments, is the greater of the selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

*Impairment of available-for-sale financial assets*

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as objective evidence that the financial asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from reserves and recognised in the Statement of Comprehensive Income.

*Impairment of receivables and other financial assets carried at amortised cost*

Objective evidence that a financial asset (or group of financial assets) carried at amortised cost is impaired includes observable data that comes to the attention of the Scheme regarding the following loss events:

- Significant difficulty of service provider or member debtors;
- Breach of contract, such as non-payment of member contributions when due and if these remain unpaid for extended periods;
- Default or delinquency in payments due by service providers and other debtors;
- The absence of an active market for that financial asset due to financial difficulties;

- Observable data indicating that there is a measurable decrease in the estimated future cash flows from other Scheme assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Scheme;
- Adverse changes in the payment status of members of the Scheme;
- National or local economic conditions that correlate with non-payment of debtor contributions.

If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated cash flows, discounted at the asset's effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Income within Net impairment losses on receivables.

*Reversal of impairment*

Impairment losses are reversed when there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Subsequent recoveries of receivables previously impaired are recognised through the Statement of Comprehensive Income.

### 1.6 De-recognition of financial instruments

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or have been transferred or when on transfer, the Scheme retains the contractual rights to receive the cash flows of the financial asset, but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Where the Scheme retains substantially all the risks and rewards of ownership of the financial asset, the Scheme continues to recognise the financial asset.

If a transfer does not result in de-recognition because the Scheme has retained substantially all the risks and rewards of ownership of the transferred asset, the Scheme continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, the Scheme recognises any income on the transferred asset and any expense incurred on the financial liability.

Where the Scheme neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Scheme determines whether it has retained control of the financial asset. In this case:

(i) if the Scheme has not retained control, it de-recognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer;

(ii) if the Scheme has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

Financial liabilities are de-recognised when the contractual obligations are discharged or cancelled or expire.

### 1.7 Offsetting of financial instruments

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously or to settle on a net basis, all related financial effects are offset.

### 1.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, and other short-term highly liquid investments with original maturities of three months or less which are readily convertible to a known amount of cash and are subject to insignificant risk of change in value.

### 1.9 Provisions

Provisions are recognised when the Scheme has a present legal or constructive obligation and. as a result of past events, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the Scheme's best estimate of the cash flows to settle the present obligation for claims (excluding claims from members and providers) and other expenses incurred and notified to the Scheme as at the Statement of Financial Position date.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

*Outstanding claims provision*

The outstanding claims provision comprises provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred but not yet reported as at the Statement of Financial Position date. Claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the nature and number of members according to trends in claims frequency, changes in the claims processing cycle and variations in the nature and average cost incurred per claim.

Estimated co-payments are deducted in calculating the outstanding claims provision. The Scheme does not discount its provision for outstanding claims since the effect of the time value of money is not considered material.

### 1.10 Member insurance contracts

Contracts under which the Scheme accepts significant insurance risk from members by agreeing to compensate the member or other beneficiary if a specified uncertain future event (the insured event) adversely affects the member or other beneficiary are classified as insurance contracts. The contracts issued compensate the Scheme's members for healthcare expenses incurred.

### 1.11 Contribution income

Contributions on member insurance contracts are accounted for monthly when their collection in terms of the member insurance contracts is reasonably certain. The earned portion of net contributions receivable is recognised as revenue. Net contributions are earned from the date of attachment of insurance risk, over the indemnity period on a straight-line basis. Net contributions are shown before the deduction of broker service fees and similar costs.

### 1.12 Relevant healthcare expenditure

Relevant healthcare expenditure incurred comprises the total estimated cost of settling all claims arising from healthcare events that have occurred in the year and for which the Scheme is responsible, whether or not reported by the end of year.

Net risk claims incurred comprise:

- claims submitted and accrued for services rendered during the year;
- over- or under-provisions relating to prior year claims accruals;
- amounts paid or to be paid under service provider contracts for services rendered to members;
- claims incurred but not yet reported.

Net of:

- recoveries from members for co-payments;
- recoveries from third parties;
- discount received from service providers.

**1.13 Expenses for the acquisition of member insurance contracts**

These expenses comprise commissions or fees paid to brokers on new member insurance contracts as well as renewal commissions and any other expenses related thereto. These expenses are accounted for on an accrual basis when they become due and payable.

**1.14 Investment income**

Investment income comprises dividends and interest on cash and cash equivalents and other available-for-sale financial assets. Interest income is recognised using the effective interest rate method, taking into account the principal amount outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Scheme.

Dividend income on available-for-sale equity investments is recognised when the right to receive payment has been established. This is the ex-dividend date for equity securities. Where dividend income accrues to the Scheme through unitised instruments, dividend and interest income is recognised after the units are sold and the income realised. Capitalisation shares received in terms of a capitalisation issue from reserves, other than share premium or a reduction in share capital, are treated as dividend income.

**1.15 Retirement benefits**

*Defined contribution plan*

The Scheme's employee pension fund is funded through payments to insurance companies. The Scheme has a defined contribution plan, which is a pension plan, governed by the Pensions Fund Act, where the Scheme pays fixed contributions into a separate entity. Once the contributions have been paid, the Scheme has no legal or constructive obligations to pay further contributions if the pension fund does not hold sufficient assets to pay all employees their entitlement. The pension contributions are recognised as staff remuneration when they are due and payable.

**1.16 Unallocated funds**

Unallocated funds arise on the receipt of unidentified deposits in favour of the Scheme. Unallocated funds that have legally prescribed, that is funds older than three years, are written back and included in the Statement of Comprehensive Income.

**1.17 Segment reporting**

No segmental business information is presented as the entire Scheme's business is considered to be one business segment.

**1.18 Liabilities and related assets under the liability adequacy test**

The liability for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows, and comparing this amount to the carrying value of the liability net of any related assets (i.e. the value of business acquired). Where a shortfall is identified, an additional provision is made and the Scheme recognises the deficiency in Income for the year.

**1.19 Allocation of income and expenditure to benefit options**

The following items are directly allocated to benefit options:

- Contribution income
- Claims incurred
- Broker fees.

The remaining items are apportioned based on the number of principal members on each option:

- Managed care: Management services
- Administration fees
- Other income
- Other expenditure.

## 2. Property, plant, equipment and leasehold improvements

| | Land and buildings R'000 | Office equipment & software R'000 | Office furniture R'000 | Leasehold improvements R'000 | Total R'000 |
|---|---|---|---|---|---|
| 31 December 2012 | | | | | |
| Opening carrying amount | – | 219 | 315 | 18 | 552 |
| Acquisitions during the year | 18 679 | 266 | 171 | – | 19 116 |
| Disposals during the year | – | – | – | – | – |
| Depreciation charge | (93) | (178) | (56) | (18) | (345) |
| Closing carrying amount | 18 586 | 307 | 430 | – | 19 323 |
| | | | | | |
| Cost or valuation | 18 679 | 1 269 | 715 | 345 | 21 008 |
| Accumulated depreciation | (93) | (962) | (285) | (345) | (1 685) |
| Carrying amount | 18 586 | 307 | 430 | – | 19 323 |
| | | | | | |
| 31 December 2011 | | | | | |
| Opening carrying amount | – | 267 | 360 | 84 | 711 |
| Acquisitions during the year | – | 145 | 5 | 24 | 174 |
| Disposals during the year | – | (33) | – | – | (33) |
| Depreciation charge | – | (160) | (50) | (90) | (300) |
| Closing carrying amount | – | 219 | 315 | 18 | 552 |
| | | | | | |
| Cost or valuation | – | 1 017 | 544 | 345 | 1 906 |
| Accumulated depreciation | – | 798 | 229 | 327 | (1 354) |
| Carrying amount | – | 219 | 315 | 18 | 552 |

## 3. Analysis of carrying amounts of financial assets and liabilities per category

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Available-for-sale financial assets | | |
| - Non-current | 497 197 | 358 447 |
| - Current | 105 595 | 139 317 |
| | | |
| Cash and cash equivalents | 13 393 | 25 320 |
| | | |
| Accounts receivable | | |
| - Loans and receivables | 635 | 779 |
| - Insurance receivables | 1 283 | 691 |
| | | |
| Accounts payable | | |
| - Financial liabilities measured at amortised cost | 3 809 | 4 023 |
| - Insurance payables | 53 766 | 57 258 |

## 4. Available-for-sale financial assets

| | Notes | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| Beginning of the year | | 497 764 | 428 270 |
| Capital contribution | | 45 339 | 46 100 |
| Withdrawals | | (47 500) | – |
| | | | |
| Net realised gains | 13 | 30 742 | – |
| | | | |
| Asset management fees | 15 | (4 412) | (2 597) |
| Unrealised fair value gain: Revaluation reserve | | 52 185 | 6 974 |
| | | | |
| Investment income | | | |
| - Interest | 13 | 24 336 | 19 017 |
| - Dividends | 13 | 4 338 | – |
| Fair value at the end of the year | | 602 792 | 497 764 |
| | | | |
| Less: Available-for-sale financial assets – current | | (105 595) | (139 317) |
| **Available-for-sale financial assets** | | 497 197 | 358 447 |

The Scheme's financial assets are categorised by measurement category below:

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Non-current | | |
| Equity securities | 235 733 | 213 956 |
| Property equity securities | 43 171 | 42 314 |
| Money market | – | – |
| Bonds and cash instruments | 218 293 | 102 177 |
| Total non-current | 497 197 | 358 447 |
| | | |
| Current | | |
| Money market | 19 552 | 114 555 |
| Bonds and cash instruments | 86 043 | 24 762 |
| Total current | 105 595 | 139 317 |

Available-for-sale financial instruments are denominated in RSA Rand. Money market instruments redeemable in three months or less are classified as cash and cash equivalents. None of the available-for-sale financial assets are past due. At the end of the current financial year there was no objective evidence of impairment of the equity investments.

## 5. Accounts receivable

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Insurance receivables | 1 283 | 691 |
| Financial receivables | 53 | 196 |
| Receivable from administrator | 337 | – |
| Accrued interest | 244 | 583 |
| Sub-total: Accounts receivable | 1 918 | 1 470 |
| | | |
| Impairment provision | (100) | (100) |
| Current portion | 1 817 | 1 370 |

As at 31 December 2012, the carrying amounts of accounts receivable approximated their fair value. Interest is not charged on overdue balances.

## 6. Cash and cash equivalents

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Cash at bank and on hand | 2 964 | 3 101 |
| Short-term bank deposits | 10 429 | 22 219 |
| | 13 393 | 25 320 |

The weighted average effective interest rate was 4.80% (2011: 5.88%) on current and call account balances.

## 7. Accounts payable

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Insurance liabilities | | |
| Net contributions received in advance | 908 | 93 |
| Reported claims not yet paid | 14 216 | 31 163 |
| Member and provider credit balances | 1 236 | 876 |
| Total liabilities arising from insurance contracts | 16 360 | 32 132 |
| | | |
| Financial liabilities | | |
| Sundry accounts payable | 3 809 | 4 023 |
| Total arising from financial liabilities | 3 809 | 4 023 |
| | | |
| Total accounts payable | 20 169 | 36 155 |

As at 31 December 2012, the carrying amounts of accounts payable approximated their fair value because of the short-term maturities of these liabilities.

## 8. Outstanding claims provision

| | Notes | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| Analysis of movements in outstanding claims | | | |
| Balance at beginning of year | | 25 126 | 22 528 |
| Payments in respect of prior year | 9 | (32 329) | (20 538) |
| Under-/(Over)-provision in prior year written back | 9 | 7 203 | (1 990) |
| Adjustment for current year | 9 | 37 406 | 25 126 |
| Balance at end of year | | 37 406 | 25 126 |

*Analysis of movements in provision arising from liability adequacy test*

The liability adequacy test was performed and no additional provision was required. There are some sources of uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for claims made under insurance contracts. Initial estimates are made relating to the best calculations on reported claims and reviewed as the claims process develops. All estimates are revised and adjusted at year-end by management.

*Process used to determine the assumptions*

The process used to determine the assumptions is intended to result in realistic estimates of the most likely or expected outcomes. The sources of data used as inputs for the assumptions are internal, using detailed studies of historical claiming patterns to establish a claims run-off period per discipline. More emphasis is placed on recent information, particularly where current claims do not appear to follow prior year trends. Where, in prior years, there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

Notified claims are assessed with due regard to the claim circumstances, medical discipline, anticipated development, and expected seasonal fluctuations. The provisions are best estimates, based on the most recent information available, and may be affected by the different claims run-off periods of the various medical disciplines. The process of estimation differs by category of claims, such as in-hospital, chronic and day-to-day benefits, due to differences in the underlying insurance contracts, claim complexity, the volume of claims, individual severity of claims, and reporting lags.

The cost of outstanding claims is estimated using the chain-ladder method. This model extrapolates the development of incurred claims for each option and each discipline based upon observed historical development.

Run-off triangles are used in situations where it takes time after the treatment date for the full extent of the claims to become known. It is assumed that payments will emerge in a similar way in each service month. The proportional increase in known cumulative payments from one development month to the next can then be used to calculate payments for future development months.

The actual method or blend of methods used varies by benefit year being considered, categories of claims and observed historical claims development. To the extent that historical claims development information is used, it is assumed that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development and recording of claims paid and incurred;
- changes in composition of members and their dependants;
- random fluctuations, including the impact of large losses;
- legislative changes, e.g. expansion of the definition of a prescribed minimum benefit (PMB)/Chronic Disease List (CDL).

*Assumptions*

The outstanding claims provision is calculated based on claims processing patterns over the previous twenty-four months. Due to the large size of the Scheme membership base, no adjustment to the data is made for large claims. The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the claims run-off periods for the most recent benefit years (split by discipline) for the in-hospital, chronic and day-to-day categories of claims. The run-off factor relates to the emergence and settlement patterns of claims and is expressed as the percentage of claims settled in respect of total claims expected to emerge in a specific service month. This factor is then used to project the remainder of the outstanding claims relating to the specified service month. These are used for assessing the outstanding claims provision for the 2012 benefit year. Due to the fact that 98% of claims are paid within three months of the date of service, no allowance for discounting of claims costs is made.

*Changes in assumptions and sensitivities to changes in key variables*

The table below outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. It should be noted that this is a deterministic approach with no correlation between the key variables. For each sensitivity illustrated, all other assumptions have been left unchanged.

Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable in the future may be required.

An analysis of sensitivity around various scenarios for the general medical insurance business provides an indication of the adequacy of the Scheme's estimation process. The Scheme believes that the liability for claims reported in the Statement of Financial Position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise. Consequently, if, for example, the estimates of the outstanding portion of claims costs for the year were 1% inaccurate, the impact on the provision would be as follows:

| | Change in variable % | Change in liability | |
|---|---|---|---|
| | | **2012 R'000** | 2011 R'000 |
| Hospitalisation | 1% slower | **1 541** | 1 289 |
| Chronic medication | 1% slower | **488** | 168 |

This analysis has been prepared for a change in run-off factors with other assumptions remaining constant. The change in liability also represents the absolute change in surplus or deficit for the period. It should be noted that an increase in liabilities will result in a decrease in surpluses and *vice versa*. These reasonable possible changes in key variables do not result in any changes directly to reserves.

## 9. Relevant healthcare expenditure

| | Notes | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| Current year claims paid | | 791 883 | 712 220 |
| | | | |
| Movement in outstanding claims provision | | 12 281 | 2 598 |
| Payments in respect of prior year | 8 | (32 328) | (20 538) |
| Over-/(under)-provision in prior year | 8 | 7 203 | (1 990) |
| Adjustment for current year | 8 | 37 406 | 25 126 |
| | | | |
| Claims incurred | | 804 164 | 714 818 |
| Less: Third-party claim recoveries | | (217) | (1 092) |
| | | 803 947 | 713 726 |

## 10. Managed care: Management services

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Hospital pre-authorisation, case and disease management | 10 569 | 9 723 |
| Pharmacy benefit and clinical risk management services | 6 648 | 6 389 |
| Emergency medical transportation service | 889 | 424 |
| International travel cover | 783 | 1 313 |
| Optical benefit management | 414 | 389 |
| Dental benefit management | 1 252 | 895 |
| Trauma benefit management | 91 | 70 |
| Medical advisor | 318 | 178 |
| | 20 964 | 19 381 |

## 11. Administration expenditure

| | Notes | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| Audit fees | | 692 | 650 |
| Actuarial fees | | 698 | 656 |
| Association fees | | 259 | 260 |
| Bank charges | | 634 | 482 |
| Internal broker consultants remuneration and expenses | | 6 777 | 6 721 |
| Computer expenses | | 296 | 125 |
| Council for Medical Schemes expenses | | 642 | 542 |
| Depreciation | | 251 | 300 |
| Entertainment | | 13 | 7 |
| Fees paid to the administrator | | 63 196 | 58 028 |
| Internal audit fees | | 29 | 28 |
| Legal fees | | 799 | 133 |
| Marketing expenses | | 8 228 | 5 648 |
| Office rental | | 1 009 | 934 |
| Principal Officer remuneration | | 2 123 | 2 081 |
| Printing and stationery | | 561 | 799 |
| Professional fees | | 51 | 21 |
| Professional indemnity insurance premiums | | 206 | 217 |
| Eligibility services | | 237 | 221 |
| Repairs and maintenance | | 7 | 7 |
| Staff costs | | 3 815 | 3 479 |
| Telephone, postage and fax | | 659 | 1 570 |
| Travel, accommodation and conferences | | 87 | 215 |
| Trustee remuneration and considerations | 16 | 2 263 | 1 774 |
| Other expenses | | 92 | 288 |
| | | 93 624 | 85 185 |

## 12. Broker service fees

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Broker fees | 6 279 | 5 531 |
| Other distribution costs paid to brokers | – | – |
| | 6 279 | 5 531 |

## 13. Investment income

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Available-for-sale – dividend income | 4 338 | – |
| Interest income | 26 326 | 20 471 |
| Available-for-sale financial assets | 24 336 | 19 017 |
| Call and current bank accounts | 1 990 | 1 454 |
| | | |
| Net realised gains on available-for-sale financial assets | 30 742 | – |
| Net rental income | 428 | – |
| | 61 834 | 20 471 |

## 14. Sundry income

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Prescribed amounts written to income | 77 | 73 |
| Profit on the disposal of equipment | – | 7 |
| | 77 | 80 |

## 15. Asset management fees

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Management fees | 4 412 | 2 597 |
| Performance fees | – | – |
| Current year expense | 4 412 | 2 597 |

This expense is charged as a percentage of the total value of investments managed by the asset management company.

## 16. Trustee and committee remuneration

The following tables record the remuneration paid to and consideration paid for trustees and other committee members during 2011 and 2012:

| 31 December | Fees for meeting attendance R | Fees for holding of office R | Fees for consultancy services R | Allowances R | | Total remuneration R | Training R | Conference fees R | Travel and accommodation R | Other disbursements and reimbursements R | Total considerations R |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2012** | | | | | | | | | | | |
| Mr DC Arnold* | 9 621 | | | | | 9 621 | | | 386 | | 10 007 |
| Dr AD Behrman | 80 745 | | | | | 80 745 | | | 73 046 | | 153 791 |
| Dr MM Bhikhoo | 225 833 | 46 300 | | | | 272 133 | | | 4 461 | | 276 594 |
| Mr MJ Brown* | 44 417 | | | | | 44 417 | | | 4 236 | | 48 653 |
| Mr HP du Toit§ | – | | | | | – | | | – | | – |
| Mr E Huggett | 72 360 | | | | | 72 360 | | | 7 775 | | 80 135 |
| Mr KG Mockler* | 62 787 | | 30 200 | | | 92 987 | | | 5 074 | | 98 061 |
| Dr AP Newell | 63 245 | | | | | 63 245 | 6 083 | | – | | 69 328 |
| Dr E Nkosi | 114 569 | | | | | 114 569 | | | 4 500 | | 119 068 |
| Dr Y Omar Carrim* | 28 477 | | | | | 28 477 | | | 3 146 | | 31 623 |
| Ms EL Prins-Van den Berg | 446 554 | 133 860 | | | | 580 414 | | 4 840 | 18 503 | | 603 757 |
| Dr RD Shuttleworth | 160 223 | | | | | 160 223 | | | 136 803 | | 297 025 |
| Mr A Tait | 72 360 | | | | | 72 360 | | | 1 523 | | 73 883 |
| Mr RN Theunissen | 219 352 | | | | | 219 352 | | | 4 949 | | 224 300 |
| Dr EJ Thorburn | 45 785 | | | | | 45 785 | | | 1 743 | | 47 528 |
| Ms MM van Garderen | 126 540 | | | | | 126 540 | 1 926 | | 992 | | 129 458 |
| **Total 2012** | **1 772 866** | **180 160** | **30 200** | | | **1 983 226** | **8 009** | **4 840** | **267 136** | | **2 263 211** |
| | | | | | | | | | | | |
| **2011** | | | | | | | | | | | |
| Dr AD Behrman | 66 230 | | | | | 66 230 | 705 | | 62 566 | | 129 501 |
| Dr JB Bekker | 29 620 | | | | | 29 620 | | | 51 861 | | 81 481 |
| Dr MM Bhikhoo | 140 900 | 46 300 | | | | 187 200 | 705 | | 3 500 | | 191 405 |
| Mr MJ Brown* | 41 984 | | | | | 41 984 | | | 3 372 | | 45 356 |
| Mr E Huggett | 94 050 | | | | | 94 050 | 2 405 | | 7 163 | | 103 618 |
| Mr KG Mockler* | 55 432 | | 36 400 | | | 91 832 | | | 3 970 | | 95 802 |
| Dr E Nkosi | 96 850 | | | | | 96 850 | 705 | | 4 392 | | 101 947 |
| Dr Y Omar Carrim* | 19 921 | | | | | 19 921 | | | 2 134 | | 22 055 |
| Ms EL Prins-Van den Berg | 281 303 | 68 700 | | | | 350 003 | 4 277 | 3 850 | 17 379 | | 375 509 |
| Dr RD Shuttleworth | 99 760 | | | | | 99 760 | 705 | | 105 846 | | 206 311 |
| Mr A Tait | 80 290 | | | | | 80 290 | 705 | | 1 400 | | 82 395 |
| Mr RN Theunissen | 162 190 | | | | | 162 190 | 2 255 | | 5 057 | | 169 502 |
| Dr EJ Thorburn | 91 230 | | | | | 91 230 | 705 | | 4 265 | | 96 200 |
| Ms MM van Garderen | 70 030 | | | | | 70 030 | 1 948 | | 1 340 | | 73 318 |
| **Total 2011** | **1 329 790** | **115 000** | **36 400** | | | **1 481 190** | **15 115** | **3 850** | **274 245** | | **1 774 400** |

* Independent Board committee members
§ Appointed 22 November 2012

Trustee appointment, election and resignation dates are disclosed in the Report of the Board of Trustees.

## 17. Cash generated from operations per the Statement of Cash Flows

| | Notes | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| Net surplus for the year | | 63 840 | 60 826 |
| Adjustments for: | | | |
| Depreciation | 2 | 345 | 300 |
| Interest received | 13 | (26 326) | (20 471) |
| Dividend income | 13 | (4 338) | – |
| Realised gain on disposal of available-for-sale financial assets | 13 | (30 742) | – |
| Profit/(loss) on the disposal of equipment | 14 | – | (7) |
| Increase in outstanding claims provision | 9 | 12 280 | 2 598 |
| Cash flows from operations before working capital changes | | 15 059 | 43 247 |
| | | | |
| Changes in working capital | | (16 435) | 1 194 |
| (Increase)/decrease in accounts receivable | 5 | (449) | 630 |
| (Decrease)/increase in accounts payable | 7 | (15 986) | 564 |
| | | | |
| Cash (utilised)/generated in operations | | (1 376) | 44 441 |

## 18. Surplus/(deficit) from operations per benefit option

The Scheme offers five benefit options, which have the following principal features:

- ProPinnacle – Comprehensive in-hospital cover in private wards, and comprehensive chronic and day-to-day cover. GP and specialist costs covered at Profmed Premium Tariff rates (approximately 300% of the 2006 National Health Reference Price List with annual inflationary increases).
- ProSecure Plus – Comprehensive in-hospital cover and private ward rates for maternity confinement. Chronic and day-to-day medical expenses and cover over and above the prescribed minimum benefits. In-hospital GP and specialist costs covered at Profmed Premium Tariff rates (approximately 300% of the 2006 National Health Reference Price List with annual inflationary increases).
- ProSecure – Comprehensive cover in-hospital, and chronic and day-to-day medical expenses and cover over and above the prescribed minimum benefits.
- ProActive Plus – Comprehensive in-hospital benefits, and cover for prescribed minimum benefits. In-hospital GP and specialist costs covered at Profmed Premium Tariff rates (approximately 300% of the 2006 National Health Reference Price List with annual inflationary increases).
- ProActive – Comprehensive in-hospital benefits, and cover for prescribed minimum benefits.

| | ProPinnacle R'000 | ProSecure Plus R'000 | ProSecure R'000 | ProActive Plus R'000 | ProActive R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **2012** | | | | | | |
| Net contribution income | 165 502 | 116 079 | 319 777 | 112 021 | 217 776 | 931 155 |
| Relevant healthcare expenditure | (165 154) | (115 991) | (303 713) | (77 907) | (141 182) | (803 947) |
| Claims incurred | (165 371) | (115 991) | (303 713) | (77 907) | (141 182) | (804 164) |
| Third-party claim recoveries | 217 | – | – | – | – | 217 |
| | | | | | | |
| Gross healthcare result | 348 | 88 | 16 064 | 34 114 | 76 594 | 127 208 |
| | | | | | | |
| Managed care: Management services | (1 711) | (1 905) | (6 028) | (3 850) | (7 470) | (20 964) |
| Administration expenditure | (7 643) | (8 506) | (26 920) | (17 192) | (33 362) | (93 623) |
| Broker service fees | (513) | (571) | (1 805) | (1 153) | (2 237) | (6 279) |
| Net impairment losses on healthcare receivables | – | – | – | – | – | – |
| Net healthcare result | (9 519) | (10 894) | (18 689) | 11 919 | 33 525 | 6 342 |
| | | | | | | |
| Average number of members during the year | 2 181 | 2 428 | 7 686 | 4 916 | 9 522 | 26 734 |
| | | | | | | |
| **2011** | | | | | | |
| Net contribution income | 165 014 | 106 809 | 298 307 | 88 326 | 208 243 | 866 699 |
| Relevant healthcare expenditure | (163 971) | (106 178) | (261 786) | (61 295) | (120 496) | (713 726) |
| Claims incurred | (164 152) | (106 203) | (262 221) | (61 295) | (120 947) | (714 818) |
| Third-party claim recoveries | 181 | 25 | 435 | – | 451 | 1 092 |
| | | | | | | |
| Gross healthcare result | 1 043 | 631 | 36 521 | 27 031 | 87 747 | 152 973 |
| | | | | | | |
| Managed care: Management services | (1 711) | (1 776) | (5 627) | (3 116) | (7 151) | (19 381) |
| Administration expenditure | (7 519) | (7 804) | (24 730) | (13 696) | (31 436) | (85 185) |
| Broker service fees | (488) | (507) | (1 606) | (889) | (2 041) | (5 531) |
| Net impairment losses on healthcare receivables | – | – | – | – | (4) | (4) |
| Net healthcare result | (8 675) | (9 456) | 4 558 | 9 330 | 47 115 | 42 872 |
| | | | | | | |
| Average number of members during the year | 2 298 | 2 385 | 7 557 | 4 185 | 9 607 | 26 032 |

The allocation of the non-healthcare expenses across the options is based on the average number of principal members per option during the year.

## 19. Related party transactions

The Scheme is controlled by the Board of Trustees, fifty percent of whom are elected by the members of the Scheme and fifty percent are appointed by the Board of Trustees.

Administration fees were paid to the administrator, Professional Medical Scheme Administrators Proprietary Limited, a wholly-owned subsidiary of PPS Insurance Company Limited. Administration fees were charged in line with market-related rates.

*Transactions with related parties*

| | Notes | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| Statement of Comprehensive Income | | | |
| Professional Medical Scheme Administrators: | | | |
| Administration fees | 11 | 63 196 | 58 028 |
| Managed care fees | 10 | 10 596 | 9 723 |
| | | | |
| Statement of Financial Position | | | |
| Balance due to Professional Medical Scheme Administrators | | 337 | – |

The terms and conditions of the transactions with related parties were as follows:

*Administration agreement*

The administration agreement is in terms of the rules of the Scheme and in accordance with instructions given by the Board of Trustees. The agreement is automatically renewed each year unless notification of termination is received or following the cancellation of the administrator's accreditation or the issue of a lawful directive to this effect by the Council for Medical Schemes in terms of the Medical Schemes Act 131 of 1998, as amended.

*Key management personnel and their close family members*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board of Trustees and the Principal Officer. The disclosure deals with full-time personnel that are compensated on a salary basis (Principal Officer) and part-time personnel that are compensated on a fee basis (Board of Trustees). Close family members means close family members of the Board of Trustees and Principal Officer.

*Transactions with related parties' key management personnel (Board of Trustees and Principal Officer) and their close family members*

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Statement of Comprehensive Income | | |
| Remuneration | 4 387 | 3 869 |
| Contributions received | 403 | 403 |
| Claims incurred | (261) | (309) |
| | | |
| Statement of Financial Position | | |
| Contribution debtors | – | – |
| Claims reported not yet paid | – | – |

The terms and conditions of the related party transactions were as follows:

| Transaction | Nature of transactions and terms and conditions thereof |
|---|---|
| Contributions received | These are the contributions paid by the related parties as members of the Scheme in their individual capacities. All contributions were on the same terms as applicable to other members. |
| Claims incurred | These are amounts claimed by the related parties as members of the Scheme in their individual capacities. All claims were paid out in terms of the rules of the Scheme, as applicable to other members. |
| Contribution debtor | These are outstanding contributions receivable. The amounts are due immediately. No impairment provisions have been raised on these amounts. |
| Claims reported not yet paid | These are claims that have been reported but not yet paid due to the fact that the Scheme's year-end fell between the claims payment runs. All claims are settled within 30 days of being received, as applicable to third parties or other members. |

## 20. Commitments

The Scheme had not made any commitments for future capital or lease payments as at year-end.

## 21. Subsequent events

There have been no adjusting or non-adjusting events that have occurred between the accounting date and the date of this report that affected the 2012 results.

## 22. Financial risk management

### 22.1 Financial risk factors

The Scheme's activities expose it to a variety of financial risks, including the effects of changes in the equity market price and interest rates. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are liquidity risk, credit risk, interest rate risk and market risk. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments, which the Scheme holds to meet its obligations to its members.

Risk management and investment decisions are carried out by the Board, under the policies approved by it. The Board identifies and evaluates financial risks associated with the Scheme's investment portfolio.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity. The Board of Trustees approves all of these written policies.

The Scheme only dealt with financial institutions with National Long Term ratings of B and higher. At year-end the major financial institutions that the Scheme contracted with had the following credit ratings:

- ABSA Bank A-
- FirstRand Holdings BBB
- Investec Wealth & Investment BBB-
- Nedbank BBB
- Standard Bank BBB.

### 22.2 Market risk

a) Interest rate risk

Interest rate risk is the Scheme's exposure to changes in interest rates. The main exposure to the Scheme would be a reduction in interest income on investments if interest rates were to decrease.

The Scheme is exposed to interest rate risk as it places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate investments within the Scheme's money market investment portfolio as well as additional fixed deposit investments.

The table below summarises the Scheme's exposure to interest rate risk. Included in the table are the Scheme's money market securities, fixed deposits, deposits on call and current bank accounts at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

| | Up to 3 months R'000 | 4 – 12 months R'000 | 1 – 5 years R'000 | Total R'000 |
|---|---|---|---|---|
| 2012 | | | | |
| Total exposure | 49 031 | 56 564 | – | 105 595 |
| 2011 | | | | |
| Total exposure | 117 418 | 21 899 | – | 139 317 |

The above amounts are classified as follows:

| | Notes | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| Available-for-sale financial assets | | | |
| - Non-current | 4 | – | – |
| - Current | 4 | 105 595 | 139 317 |
| | | 105 595 | 139 317 |

*Interest rate risk sensitivity analysis*

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) accumulated funds and the surplus by the amounts shown below. The analysis assumes that all other variables remain constant. The analysis was performed from the date that the current asset managers were appointed.

| | Surplus or deficit (R'000) | | Accumulated funds (R'000) | |
|---|---|---|---|---|
| | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease |
| 2012 | | | | |
| Available-for-sale financial assets | 56 720 | 52 716 | 476 810 | 472 806 |
| 2011 | | | | |
| Available-for-sale financial assets | 62 729 | 59 105 | 421 812 | 418 365 |

b) Currency risk

All of the Scheme's investments and benefits are Rand denominated and therefore do not have significant net currency risk.

c) Price risk

The Scheme is exposed to equity securities price risk because of investments held by the Scheme and classified in the Statement of Financial Position as Available-for-sale financial assets. The Scheme is not exposed to commodity risk. To manage the price risk arising from investment in equity securities, the Scheme diversifies its portfolio within the limits prescribed by the Medical Schemes Act and Regulations.

The table below summarises the Scheme's exposure to equity securities price risk:

| | Up to one month R'000 | 1 – 3 months R'000 | 4 – 12 months R'000 | 1 – 5 years R'000 | Total R'000 |
|---|---|---|---|---|---|
| 2012 | | | | | |
| Total exposure | – | – | – | 278 904 | 278 904 |
| 2011 | | | | | |
| Total exposure | – | – | – | 256 269 | 256 269 |

## 22.3 Credit risk

Credit risk is the risk of loss arising from the inability of a third party to service its debt obligations. The Scheme's principal financial assets are cash and cash equivalents, accounts receivable and investments. The Scheme's credit risk relates primarily to its accounts receivable.

The receivables are in respect of:

- contributions due from members;
- amounts recoverable from service providers and accrued interest.

The Scheme manages credit risk by:

- actively pursuing all contributions not received after three days of becoming due, as required by Section 26(7) of the Medical Schemes Act 131 of 1998, as amended;
- suspending benefits on all member accounts when contributions have not been received for 30 days;
- terminating benefits on all member accounts when contributions have not been received for 60 days;
- ageing and pursuing unpaid accounts on a monthly basis.

The amounts presented in the Statement of Financial Position are net of provision for impairment, estimated by the Scheme's management, based on prior experience and the current economic environment.

The credit risk on liquid funds is limited because the counter-parties are banks with high credit ratings assigned by international credit rating agencies. There is no significant concentration of credit risk with respect to receivables as the Scheme has a large number of members who are nationally dispersed.

*Exposure to credit risk*

For the disclosure of the maximum exposure to credit risk on Accounts receivable, Available-for-sale financial assets and Cash and cash equivalents, please refer to Note 3.

Accounts receivable that are less than sixty days past due are not considered impaired. The ageing analysis of these receivables is as follows:

| | Notes | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| Fully performing | | 635 | 879 |
| Past due – 4 to 30 days | | 777 | 522 |
| Past due – 31 days and older | | 561 | 69 |
| Impairment provision | | (100) | (100) |
| Total accounts receivable | 5 | 1 873 | 1 370 |
| | | | |
| Net impairment losses on healthcare receivables | | | 4 |

Movements on the impairment provision of accounts receivable are as follows:

| | Notes | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| At 1 January | | 100 | 100 |
| Reduction in the provision for receivable impairment | | – | – |
| At 31 December | 5 | 100 | 100 |

**22.4 Liquidity risk**

The Scheme manages liquidity risk by monitoring cash flows. The Scheme is exposed to daily calls on its available cash resources mainly from claims. Liquidity risk is the risk that cash may not be available to pay obligations when they are due at a reasonable cost.

The availability of funding through liquid-holding cash positions with various financial institutions ensures that the Scheme has the ability to fund the day-to-day operations of the Scheme. The Scheme has complied with the requirements regarding the nature and categories of assets as prescribed by Section 35 and Regulation 30 of the Medical Schemes Act 131 of 1998, as amended.

**22.5 Capital management**

The Scheme's objectives when managing capital are to maintain the capital requirements of the Medical Schemes Act 131 of 1998, as amended, and to safeguard the Scheme's ability to continue as a going concern in order to provide benefits for its stakeholders.

The risk is that there could be insufficient reserves to provide for adverse variations on actual and future experience. The Medical Schemes Act 131 of 1998, as amended, requires a minimum ratio of accumulated funds expressed as a percentage of gross premiums to be 25%. The Scheme's accumulated funds ratio was 51.97% as at 31 December 2012 and 48.47% at 31 December 2011.

The accumulated funds ratio is calculated as follows:

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Total members' funds per Statement of Financial Position | 579 750 | 463 764 |
| Less: Reserve for unrealised investment gains | (95 821) | (43 636) |
| Accumulated funds per Regulation 29 of the Act | 483 929 | 420 128 |
| | | |
| Annual contribution income per Statement of Comprehensive Income | 931 155 | 866 699 |
| | | |
| Accumulated funds ratio calculated as the ratio of accumulated funds/gross annual contributions x 100 | 51.97% | 48.47% |

**22.6 Investment risk**

Investment risk is the risk that the investment returns on accumulated assets will not be sufficient to cover future liabilities. Continuous monitoring takes place to ensure that appropriate assets are held where the Scheme's liabilities are dependent upon the performance of the investment portfolio and that a suitable match of assets exists for all liabilities.

The performance of this portfolio is measured against the JSE All Share Index. The table below indicates the sensitivity of the surplus/(deficit) of the Scheme to movement in the JSE All Share Index, assuming that the movement of the market is realised.

| | Surplus (R'000) | | | | | |
|---|---|---|---|---|---|---|
| | Increase in market | | | Decrease in market | | |
| | 30% | 15% | 5% | 5% | 15% | 30% |
| 2012 | | | | | | |
| Equity portfolio | 125 938 | 90 328 | 66 588 | 42 848 | 22 108 | (16 502) |
| 2011 | | | | | | |
| Equity portfolio | 114 827 | 87 827 | 69 827 | 51 827 | 33 827 | 11 131 |

Fair values of financial assets by hierarchy level:

| | Level 1 R'000 | Level 2 R'000 | Level 3 R'000 | Reclassification |
|---|---|---|---|---|
| 2012 | | | | |
| Available-for-sale financial assets | 602 792 | – | – | – |
| 2011 | | | | |
| Available-for-sale financial assets | 497 764 | – | – | – |

For financial assets carried at fair value, the allocation of fair value measurements into the fair value hierarchy is reflective of the significant inputs used in making the measurements. The fair value hierarchy is based on the following levels:

Level 1: Where inputs are determined directly by reference to published price quotations (unadjusted) in an active market for identified instruments;

Level 2: Where inputs other than published price quotations included in Level 1 that are observable for assets, either directly (i.e. as prices) or indirectly (i.e. derived from prices), are used;

Level 3: Where the fair values are determined using a valuation technique based on assumptions that are not supported by observable market data.

## 23. Critical accounting judgements and areas of key sources of estimation uncertainty

The Scheme makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key assumptions concerning the future and other key sources of estimation uncertainty at the Statement of Financial Position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year, are discussed below.

*Outstanding claims provision*

The outstanding claims provision is a provision made for the estimated cost of healthcare benefits that had occurred before the year-end, but that had not been reported to the Scheme by that date. This provision is determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the nature and number of members according to trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim. Refer to Note 8.

## 24. Insurance risk management

The primary insurance activity carried out by the Scheme relates to assuming the risk of loss from members and their dependants as a result of claims that are directly subject to the risk. These risks relate to the insured healthcare events of the Scheme's members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contracts. The Scheme also has exposure to market risk through its insurance and investment activities.

The Board of Trustees has developed and approved a documented policy for the acceptance and management of insurance risk to which the Scheme is exposed. Reference has also been made to the requirements of the Medical Schemes Act 131 of 1998, as amended, in compiling the insurance risk management policy. This policy is reviewed annually and the benefit options available to the members are structured to fall within the acceptable insurance risk levels specified. The annual business plan is structured around the insurance risk management policy.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, protocols as well as the monitoring of emerging legislative, environmental and actuarial issues.

The Scheme uses several methods to assess and monitor insurance risk exposure both for individual types of risks insured and overall risks. These methods include internal risk measurement models, comparison of budgeted versus actual claims on a regular basis, sensitivity analyses, scenario analyses and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts, using established actuarial principles. 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.

The table below summarises the concentration of insurance risk, with reference to the carrying amount of the insurance claims incurred, by age group and in relation to the type of risk covered and benefits provided.

*Concentration of insurance risk*

Claims incurred for 2012 service year:

| Age grouping (in years) | In-hospital R'000 | Chronic R'000 | Day-to-day R'000 | Other R'000 | Total R'000 |
|---|---|---|---|---|---|
| < 26 | 62 773 | 5 954 | 27 650 | 1 976 | 98 354 |
| 26 – 34 | 33 321 | 6 026 | 18 254 | 1 427 | 59 029 |
| 35 – 49 | 64 552 | 10 667 | 25 215 | 9 463 | 109 897 |
| 50 – 64 | 140 994 | 26 955 | 48 657 | 25 589 | 242 196 |
| > 65 | 196 134 | 32 089 | 47 849 | 22 823 | 298 894 |
| Total | 497 774 | 81 692 | 167 625 | 61 278 | 808 370 |
| | | | | | |
| Movement in the outstanding claims provision | | | | | (5 077) |
| Rectified benefits | | | | | 141 |
| Claims refunds | | | | | (217) |
| Other adjustments | | | | | 730 |
| Relevant healthcare expenditure (Note 9) | | | | | 803 947 |

Claims incurred for 2011 service year:

| Age grouping (in years) | In-hospital R'000 | Chronic R'000 | Day-to-day R'000 | Other R'000 | Total R'000 |
|---|---|---|---|---|---|
| < 26 | 62 800 | 3 859 | 20 094 | 5 570 | 92 324 |
| 26 – 34 | 41 271 | 3 827 | 9 558 | 2 291 | 56 946 |
| 35 – 49 | 72 342 | 7 904 | 19 118 | 6 097 | 105 460 |
| 50 – 64 | 153 659 | 23 857 | 38 715 | 18 091 | 234 322 |
| > 65 | 154 499 | 22 960 | 28 065 | 18 246 | 223 771 |
| Total | 484 572 | 62 407 | 115 549 | 50 295 | 712 823 |
| | | | | | |
| Movement in the outstanding claims provision | | | | | 2 598 |
| Rectified benefits | | | | | (302) |
| Claims refunds | | | | | (1 092) |
| Other adjustments | | | | | (301) |
| Relevant healthcare expenditure (Note 9) | | | | | 713 726 |

In-hospital benefits cover all costs incurred by members while they are in hospital to receive pre-authorised treatment for certain medical conditions.

Chronic benefits cover the cost of certain prescribed conditions or medicines consumed by members for chronic conditions/diseases, such as high blood pressure, cholesterol and asthma.

Day-to-day benefits cover the cost (up to 100% of the Scheme tariff) of all out-of-hospital medical attention, such as visits to general practitioners and dentists and prescribed acute medicines.

The Scheme's strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that the variability of the outcome is reduced. 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 of this market.

All the contracts are annual in nature and the Scheme has the right to change the terms and conditions of the contracts at renewal. Management information, including contribution income and claims ratios by option, target market and demographic split, is reviewed monthly. There is also an underwriting review programme that reviews a sample of contracts on a quarterly basis to ensure adherence to the Scheme's objectives.

The table below indicates how sensitive the Scheme's results are to changes in the claims experience:

| | Change in variable | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| Actual surplus | | **58 162** | 60 827 |
| Surplus after change in claims experience | 1% lower | **66 201** | 67 964 |
| Surplus after change in claims experience | 1% higher | **50 123** | 53 690 |

*Risk transfer arrangements*

The Scheme did not reinsure any of the risks it underwrites in order to control its exposure to losses and protect capital resources. The Scheme did not have any capitation agreements with any providers of service.

*Claims development*

Claims development tables have not been presented as the uncertainty regarding the amounts and timing of claims payments is typically resolved within a year. In the majority of cases, claims are resolved within four months from the time they are reported to the Scheme. At year-end, a provision is made for those claims outstanding that have not yet been reported. Details on the subsequent development in respect thereof for the last two years are shown in Note 8.

**25. Contingent asset**

The Scheme grants assistance to its members in defraying expenditure incurred in connection with rendering of any relevant health service. Such expenditure may be in connection with a claim that is also made to the Road Accident Fund (RAF), administered in terms of the Road Accident Fund Act No. 56 of 1996. If the member is reimbursed by the RAF, they are obliged contractually to cede that payment to the Scheme to the extent that they have already been compensated. The outstanding amount at year-end amounts to R1 661 736 (2011: R1 313 189).

**26. Non-compliance matters**

In terms of Section 26(7) of the Medical Schemes Act 131 of 1998, contribution income shall be received within three days of becoming due. There were instances where the Scheme did not receive all contributions within three days of becoming due.

In terms of Section 33(2) of the Medical Schemes Act 131 of 1998, each benefit option shall be self-supporting in terms of membership, financial performance and be financially sound. At the end of the year, three of the options had deficits.

In terms of Section 59(2) of the Medical Schemes Act 131 of 1998, a valid claim submitted to the Scheme should be paid out within 30 days after the day on which the claim was received. Some claims were paid after 30 days during the year under review.

In terms of Section 35(8) of the Medical Schemes Act 131 of 1998, a medical scheme shall not invest any of its assets in a medical scheme administrator. The Scheme, through one of its unit trust investments, had investments in a medical scheme administrators’ holding companies. Exemption has subsequently been granted to the Scheme.

# *Form of Proxy*

Form of Proxy for the Profmed Annual General Meeting to be held at 15:30 on Wednesday 5 June 2013.

I, ____________________________________ , membership no. ____________________________ ,

being a current and fully paid-up member of Profmed, hereby appoint ____________________________ ,

membership no. __________________________, or failing him the Chairman of the meeting, as my proxy to attend, and speak, and vote on a poll for me and on my behalf at the meeting of Profmed to be held at Profmed Place, 15 Eton Road, Parktown, Johannesburg, and at any adjournment thereof, as follows:

| No. | Business | In favour of | Against | Abstain |
|---|---|---|---|---|
| 1. | Resolution for the adoption of the annual financial statements for the year ended 31 December 2012 (including the reports of the trustees, the auditors and the Profmed Audit Committee) | | | |
| 2. | Resolution for the re-appointment of the auditors | | | |
| 3. | Resolution for the retrospective confirmation of the remuneration of trustees for 2012 | | | |
| 4. | Resolution for the retrospective confirmation of the increase of 3.5% per annum in the remuneration of trustees for the period 1 January 2013 to the date of the 2013 Annual General Meeting | | | |
| 5. | Resolution for the approval of the increase of 7% per annum in the remuneration of trustees for the period commencing on the date of the 2013 Annual General Meeting and ending on the date of the 2014 Annual General Meeting | | | |

Indicate instruction to proxy by way of a cross ☒ in the relevant space provided above.

Signed this ________________________________ day of ________________________________ 2013.

Signature: ________________________________

**Notes**

1. A member entitled to attend and vote is entitled to appoint a proxy to attend, speak and, on a poll, vote in his stead, provided such proxy is also a current and fully paid-up member of Profmed.
2. Resolutions referred to in this form are those that must, in accordance with the rules of Profmed, be taken at an annual general meeting and voted upon by all those present at such meeting.
3. The proxy form must be signed, dated and e-mailed to **profmedproxy2013@bdo.co.za** or faxed to **0862 727 523** by **12:00** on **Tuesday 4 June 2013**, the day prior to the scheduled annual general meeting. Hand-delivered or posted submissions will not be accepted, unless presented by proxy at the annual general meeting.
4. The signatory may insert the name of any Profmed member whom the signatory wishes to appoint as his/her proxy in the blank spaces provided for that purpose on the proxy form.
5. The completion and lodging of this Form of Proxy will not preclude the signatory from attending the meeting and speaking and voting in person to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.
6. If the signatory does not indicate in the appropriate place on this form how he/she wishes to vote in respect of any resolution, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution whether or not express reference is made to the nature of such a resolution in this form.

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