

# *NOTICE OF THE ANNUAL GENERAL MEETING* TO BE HELD ON 15 JULY 2016



*INCLUDING THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015*

## *NOTICE TO ALL MEMBERS*

NOTICE IS HEREBY GIVEN THAT THE TWENTIETH ANNUAL GENERAL MEETING OF MEMBERS OF THE IMPERIAL GROUP MEDICAL SCHEME WILL BE HELD IN THE BOARDROOM, HINGHAM OFFICE PARK, JEPPE QUONDAM, 79 BOEING ROAD EAST, BEDFORDVIEW, ON FRIDAY, 15 JULY 2016 AT 15:00.

# AGENDA

**1. CONFIRMATION OF MINUTES**

To confirm the minutes of the Imperial Group Medical Scheme Annual General Meeting held on 17 July 2015

**2. ADOPTION OF REPORT AND ACCOUNTS**

To receive and adopt the report of the Board of Trustees, as well as the Auditor’s report and statements of accounts for the twelve (12) months ended 31 December 2015

**3. APPOINT AUDITORS**

To appoint Auditors in terms of Rule 22.1

**4. APPOINTMENT OF TRUSTEE**

One member-elected Trustee to be appointed (a nomination form is included on **pages 68** and **69**)

**5. OTHER BUSINESS**

To transact such other business as may be transacted at the Annual General Meeting

If you are unable to attend the meeting, you may nominate a proxy or the Chairperson to vote on your behalf. A proxy form is included on **page 70**.

Notice of motions to be placed before the Annual General Meeting must reach the Principal Officer no later than seven (7) days before the meeting and can be sent to:

|   |           |  |           |                        |
|---|-----------|--|-----------|------------------------|
| The Principal Officer<br>Imperial Group Medical<br>Scheme<br>PO Box 2140<br>Houghton 2041 | <b>OR</b> | The Principal Officer<br>Imperial Group Medical<br>Scheme<br>11 Park Lane<br>Entrance 15 Junction Ave<br>Parktown 2193 | <b>OR</b> | Fax to<br>0866 738 093 |
|---|-----------|--|-----------|------------------------|

BY ORDER OF THE BOARD OF TRUSTEES



**Johannes Jacobus van der Walt**  
 Principal Officer  
 Imperial Group Medical Scheme

# **MINUTES OF THE NINETEENTH ANNUAL GENERAL MEETING**

**OF THE IMPERIAL GROUP MEDICAL SCHEME HELD IN THE BOARDROOM, HINGHAM OFFICE PARK, JEPPE QUONDAM, 79 BOEING ROAD EAST, BEDFORDVIEW ON 17 JULY 2015 AT 15:00**

## **WELCOME AND APOLOGIES**

Mr Tennick welcomed all present and extended a special welcome to Mr M Maswanganyi, a representative of the Council for Medical Schemes, who attended the Annual General Meeting. Apologies were received for Messers R Venter, R Truscott and F Meier, Trustees of Imperialmed. Thirteen members were present at the meeting, including Mr R Mumford, the Chairperson of the Imperialmed Audit Committee, who is a member of Imperialmed. A quorum was present in terms of the rules of the Scheme and the meeting was properly constituted.

## **1. APPROVAL OF THE MINUTES OF THE ANNUAL GENERAL MEETING HELD ON 17 JULY 2014**

The minutes of the Annual General Meeting held on 17 July 2014 were distributed to all members in advance and made available at the meeting. The content of the minutes were approved as being a true reflection of the meeting.

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PROPOSED: Mr C van Wyk

SECONDED: Mr R Mumford

## **2. ADOPTION OF REPORTS AND ACCOUNTS**

The report of the Board of Trustees and the Auditor's letter, confirming that the summarised financial statements substantially reflect the same position as the audited financial statements for the twelve months ended 31 December 2014, were adopted by the meeting. A full set of the Annual Financial Statements was available at the meeting.

Mr van der Walt, the Principal Officer of the Scheme, informed the meeting that the Scheme recorded a sound financial performance in the 2014 benefit year. Particularly pleasing was the fact that the Scheme ended the year with a small surplus from operations, while the Scheme recorded losses from operations in the previous two years. Mr van der Walt confirmed that the strategy of the Board of Trustees to break even at operational level and confirmed that the Scheme is financially sound and recorded a solvency ratio of 80.6% at 31 December 2014.

Mr van der Walt referred the meeting to a non-compliance matter regarding Regulation 30 and specifically Section 1(a)(i) and 1(a)(ii), for which the Scheme has applied for exemption in the interim. The non-compliance relates to cash held, which was reported to be less than the required 20% due to the manner in which the detail was reported by the Investment Manager - Sygnia. After some investigation it was found that the cash in hand is actually 29%. This was taken up with Sygnia and the exemption request to the Registrar was withdrawn. The withdrawal was accepted by the Registrar.

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PROPOSED: Mr R Mumford

SECONDED: Ms S Tewary Ahmed

### 3. APPOINTMENT OF AUDITORS

It was recommended by the Audit Committee that the Registered Auditors, Deloitte & Touche, be appointed for the next financial year. The proposal was accepted by the attendees at the Annual General Meeting and Deloitte & Touché was re-appointed for the ensuing year.

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PROPOSED: Mr. J van der Walt

SECONDED: Ms M Lang

### 4. APPOINTMENT OF TRUSTEE

Mr Tennick informed the meeting that one of the member- elected Trustees, Mr F Meier, was up for re-election and could be re-appointed. Mr. Meier indicated his availability for a further term. Six nominations, all for Mr. Meier, were received and accepted. Mr Meier was re-elected, unopposed, as member-elected Trustee for a further term of three years, as there were no other nominees.

### 5. OTHER BUSINESS

There was no other business raised for discussion.

There being no further issues to discuss, the acting Chairperson closed the meeting.

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**Chairperson**

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**Date**



# *ANNUAL FINANCIAL STATEMENTS*

*FOR THE YEAR ENDED 31 DECEMBER 2015*

Registration number: 01559

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**A copy of the complete set of the Annual Financial Statements can be obtained from:**

Principal Officer: JJ van der Walt  
 Imperial Group Medical Scheme  
 11 Park Lane  
 Entrance 15 Junction Ave  
 Parktown  
 2193

# REPORT OF THE BOARD OF TRUSTEES

Registration number: 01559

The Board of Trustees hereby presents its report for the year ended 31 December 2015.

## 1. DESCRIPTION OF THE MEDICAL SCHEME

### 1.1 Terms of registration

The Imperial Group Medical Scheme ("the Scheme") is a "not for profit restricted membership scheme" registered in terms of the Medical Schemes Act 131 of 1998, as amended ("the Act").

### 1.2 Benefit options within the Imperial Group Medical Scheme

Two benefit options are available to employees of the Imperial Group. The Imperialmed Health Plan is a traditional plan that provides unlimited private hospital cover at 100% of the Medical Scheme Rate and routine non-prescribed benefits at 85% of the Medical Scheme Rate up to generous annual limits. The Imperialmed Budget Plan provides low-cost cover for essential, basic healthcare with unlimited in-hospital cover at 100% of the Medical Scheme Rate, no chronic non-prescribed minimum benefits, a general practitioner network with specialist referrals and day-to-day benefits at 85% of the Medical Scheme Rate, with relatively low annual limits.

## 2. MANAGEMENT

### 2.1 Trustees in office during the year under review

|             |  |
|-------------|--|
| AN Tennick  | Chairman & employer representative (Resigned 31 December 2015)                         |
| OS Arbee    | Employer Representative (Appointed 1 August 2015): Chairman (Appointed 1 January 2016) |
| RG Truscott | Employer representative (Resigned 31 July 2015)  |
| RA Venter   | Employer representative (Resigned 31 July 2015)  |
| ADSS Sarria | Member representative  |
| PRW Meier   | Member representative  |
| PMAS Fiddes | Member representative  |
| C de Klerk  | Employer representative (Appointed 1 August 2015)                                      |
| P Fiddes    | Member representative  |





**2. MANAGEMENT (CONTINUED)**

**2.2 Principal Officer**

**JJ van der Walt**

11 Park Lane PO Box 2140  
 Entrance 15 Junction Ave Houghton  
 Parktown 2041  
 2193

**2.3 Registered office address and postal address**

11 Park Lane PO Box 2140  
 Entrance 15 Junction Ave Houghton  
 Parktown 2041  
 2193

**2.4 Medical Scheme Administrator during the year**  
**Metropolitan Health Corporate (Pty) Ltd**

Parc du Cap PO Box 4313  
 Mispel Road Cape Town  
 Bellville 8000  
 Western Cape  
 7530

Accreditation number: 18

**2.5 Investment manager during the year**  
**Allan Gray Life Ltd**

Granger Bay Court Beach Road  
 Cape Town  
 8001

Financial Service Provider Number: 6663

**Coronation Asset Management (Pty) Ltd**

7th Floor, Montclare Place  
 Cnr Campground and Main Roads  
 Cape Town  
 7708

Financial Service Provider Number: 548



## 2. MANAGEMENT (CONTINUED)

### 2.5 Investment manager during the year (continued) Stanlib Asset Management (Pty) Ltd

17 Melrose Boulevard  
Melrose Arch  
Johannesburg  
2196

Financial Service Provider Number: 719

### Visio Capital Management (Pty) Ltd

Ground Floor, South Wing  
1 Sandton Drive  
Sandton  
2146

Financial Service Provider Number: 871

### Sygnia Asset Management (Pty) Ltd

7th Floor, The Foundry  
Cardiff Street  
Cape Town  
8001

Financial Service Provider Number: 873

### 2.6 Investment consultant and advisor during the year Sygnia Asset Management (Pty) Ltd

7th Floor, The Foundry  
Cardiff Street  
Green Point  
Cape Town  
8001

Financial Service Provider Number: 873



## 2. MANAGEMENT (CONTINUED)

### 2.7 Actuary

**Mrs M Hulme** (BSc, FASSA, CFP, HIA, MHP)  
**Towers Watson (Pty) Ltd**

|                           |                 |
|---------------------------|-----------------|
| Great Westerford Building | Private Bag X30 |
| 2nd Floor, Suite 2        | Rondebosch      |
| South Wing                | 7701            |
| 240 Main Road             |                 |
| Rondebosch                |                 |
| 7700                      |                 |

### 2.8 Auditors

**Deloitte & Touche**

|                  |            |
|------------------|------------|
| 1st Floor        | PO Box 578 |
| The Square       | Cape Town  |
| Cape Quarter     | 8000       |
| 27 Somerset Road |            |
| Greenpoint       |            |
| 8005             |            |

## 3. INVESTMENT STRATEGY OF THE SCHEME

The Scheme's investment objective is to maximise the return on its investments on a long term basis at minimal risk. The investment strategy takes into consideration both constraints imposed by legislation and those imposed by the Board of Trustees.

These policies are reviewed annually, taking into consideration compliance with the Act, the risk and returns of the various investment instruments and surplus funds available. The Scheme invested in insurance policies and cash instruments during 2015.

Sygnia Asset Management (Pty) Ltd ("Sygnia") is an independent asset manager that provides outsourced services which facilitates the unitisation of the assets held by the Scheme.

#### 4. MANAGEMENT OF INSURANCE RISK

The primary 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, service provider profiling, centralised management of risk transfer arrangements 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 one year may vary from those estimated with established statistical techniques. There are 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.

## 5. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

### 5.1 Operational statistics – 2015

|   | 2015<br>IMPERIALMED<br>HEALTH PLAN | 2015<br>IMPERIALMED<br>BUDGET PLAN | 2015<br>TOTAL | 2014<br>IMPERIALMED<br>HEALTH PLAN | 2014<br>IMPERIALMED<br>BUDGET PLAN | 2014<br>TOTAL |
|---|------------------------------------|------------------------------------|---------------|------------------------------------|------------------------------------|---------------|
| Number of members at the end of the year  | 7 182                              | 515                                | 7 697         | 7 220                              | 322                                | 7 542         |
| Average number of members for the year  | 7 259                              | 423                                | 7 682         | 7 310                              | 223                                | 7 532         |
| Number of beneficiaries at the end of the year                                  | 16 859                             | 973                                | 17 832        | 16 802                             | 603                                | 17 405        |
| Average number of beneficiaries for the year                                    | 16 995                             | 793                                | 17 788        | 16 967                             | 397                                | 17 363        |
| Average age per beneficiary   | 30                                 | 26                                 | 30            | 30                                 | 25                                 | 30            |
| Dependant ratio to members at 31 December                                       | 1.35                               | 0.89                               | 1.32          | 1.33                               | 0.87                               | 1.31          |
| Pensioner ratio   | 3.19%                              | 1.54%                              | 3.10%         | 3.05%                              | 1.00%                              | 2.98%         |
| Average net contributions per member per month                                  | R3 640                             | R1 907                             | R3 544        | R3 332                             | R1 720                             | R3 285        |
| Average net contributions per beneficiary per month                             | R1 555                             | R1 017                             | R1 531        | R1 436                             | R966                               | R1 425        |
| Average relevant healthcare expenditure per member per month                    | R3 307                             | R1 343                             | R3 128        | R3 103                             | R1 148                             | R3 046        |
| Average relevant healthcare expenditure per beneficiary per month               | R1 412                             | R716                               | R1 351        | R1 337                             | R645                               | R1 321        |
| Average administration cost per member per month                                | R226                               | R227                               | R226          | R214                               | R215                               | R214          |
| Average administration cost per beneficiary per month                           | R97                                | R121                               | R98           | R92                                | R121                               | R93           |
| Average healthcare management expense per member per month                      | R67                                | R125                               | R71           | R64                                | R161                               | R67           |
| Average healthcare management expense per beneficiary per month                 | R29                                | R67                                | R31           | R28                                | R90                                | R29           |
| Non-healthcare expenditure per average beneficiary per month                    | R97                                | R121                               | R98           | R87                                | R90                                | R88           |
| Non-health administration expenses as a percentage of gross contribution income | 6.22%                              | 11.90%                             | 6.38%         | 6.09%                              | 11.85%                             | 6.18%         |
| Gross claims as a percentage of gross contributions                             | 90.84%                             | 70.40%                             | 90.24%        | 93.13%                             | 66.75%                             | 92.72%        |
| Average accumulated funds per member at 31 December                             | R36 226                            | R36 226                            | R36 226       | R31 710                            | R31 710                            | R31 710       |
| Return on investments as a percentage of investments                            | 9.70%                              | 9.70%                              | 9.70%         | 8.96%                              | 8.96%                              | 8.96%         |

## 5. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES (CONTINUED)

### 5.1 Operational statistics – 2015 (continued)

Unrealised gains and losses arising from changes in the fair value of the available-for-sale investments are included in the available-for-sale reserve within the statement of financial position.

### 5.2 Results of the Scheme

The results of the Scheme are set out in the annual financial statements that accompany this report.

The Scheme has seen continued growth in membership during 2015. It is mainly due to new Imperial employees joining the Scheme.

### 5.3 Solvency ratio

The solvency is calculated as follows:

Total members' funds per statement of financial position

| 2015   | 2014         |
|--|--------------|
| R  | R            |
| 300 983 910                                  | 277 656 620  |
| Less:  |              |
| Available-for-sale reserve (when in surplus) |              |
| (22 151 265)                                 | (38 500 601) |
| Accumulated funds per regulation 29          |              |
| 278 832 645                                  | 239 156 019  |
| Gross contributions                          |              |
| 326 744 775                                  | 296 893 162  |
| Accumulated funds ratio                      |              |
| 85.3%  | 80.6%        |

Less:

Available-for-sale reserve (when in surplus)

Accumulated funds per regulation 29

Gross contributions

Accumulated funds ratio

The accumulated funds ratio remains well in excess of the statutory requirement of 25% of gross annual contributions, and the Scheme remains in a sound financial position.

### 5.4 Reserve accounts

Movements in the reserves are set out in the Statement of Changes in Funds and Reserves. There have been no unusual movements that the trustees believe should be brought to the attention of the members of the Scheme.

### 5.5 Outstanding claims

Movements in the outstanding claims provision are set out in note 5 to the annual financial statements. There have been no unusual movements that the trustees believe should be brought to the attention of the members of the Scheme.

## 6. ACTUARIAL SERVICES

The Scheme's actuaries have been consulted in the determination of the contribution and benefit levels, as well as the calculation of the Incurred But Not Reported claims provision.

## 7. CONTINGENCIES

There were no potential liabilities contingent on the outcome of litigations, claims, guarantees or suretyships at 31 December 2015.

## 8. LOANS TO PARTICIPATING EMPLOYERS OF MEMBERS OF THE SCHEME AND TO OTHER RELATED PARTIES

The Scheme has not made any loans to participating employers of scheme members or other related parties.

## 9. EVENTS AFTER REPORTING DATE

There have been no events that have occurred subsequent to the end of the accounting period that affect the annual financial statements and that the Trustees consider should be brought to the attention of the members of the Scheme.

## 10. RELATED PARTY TRANSACTIONS

Refer to related parties and related party transactions disclosed in note 17 to the annual financial statements.

## 11. AUDIT COMMITTEE

The Audit Committee is mandated by the Board of Trustees by means of a written terms of reference as to its membership, authority and duties. The Committee, at year end, consists of six members of which two are members of the Board of Trustees. The majority of its members, including the chairperson, are not officers of the Scheme or its third party administrator. The Committee met on two occasions during the course of the year as follows:

- » 13 April 2015; and
- » 2 November 2015.

The chairperson of the Scheme, the administrator's financial manager and the external auditors have unrestricted access to the chairman of the Audit Committee.

## 11. AUDIT COMMITTEE (CONTINUED)

In accordance with the provisions of the Act, the primary responsibility of the Committee is 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 internal and external auditors formally report to the Committee on critical findings arising from audit activities.

The committee comprises:

- » Mr R Mumford (Chairman)
- » Mr L Hollander
- » Mr PRW Meier (Member representative)
- » Mr RA Venter (Employer representative)(Resigned 31 July 2015)
- » Mr G Nzalo
- » Ms A de Waal
- » Mr C de Klerk (Employer representative)(Appointed 1 August 2015)

No fees were paid to the Audit Committee members in 2015.

## 12. TRUSTEE MEETING ATTENDANCE

The following schedule sets out Board of Trustee meeting attendances and attendances by members of the Board at committee meetings.

|                                  | TRUSTEE MEETINGS |   | ANNUAL GENERAL MEETING |   | BENEFIT REVIEW |   | CONTRIBUTION REVIEW |   |
|----------------------------------|------------------|---|------------------------|---|----------------|---|---------------------|---|
|                                  | A                | B | A                      | B | A              | B | A                   | B |
| <b>Board of Trustees members</b> |                  |   |                        |   |                |   |                     |   |
| AN Tennick (Chairman)            | 4                | 4 | 1                      | 1 | 1              | 0 | 1                   | 1 |
| R Truscott                       | 2                | 0 | 1                      | 0 | 0              | 0 | 1                   | 1 |
| C de Klerk                       | 2                | 1 | 0                      | 0 | 1              | 0 | 0                   | 0 |
| S Terwary                        | 4                | 4 | 1                      | 1 | 1              | 1 | 1                   | 1 |
| RA Venter                        | 2                | 2 | 1                      | 0 | 0              | 0 | 1                   | 1 |
| ADSS Sarria                      | 4                | 3 | 1                      | 1 | 1              | 1 | 1                   | 0 |
| OS Arbee                         | 2                | 0 | 0                      | 0 | 1              | 1 | 0                   | 0 |
| PRW Meier                        | 4                | 2 | 1                      | 0 | 1              | 1 | 1                   | 1 |
| P Fiddes                         | 4                | 4 | 1                      | 1 | 1              | 1 | 1                   | 1 |



## 12. TRUSTEE MEETING ATTENDANCE (CONTINUED)

|  | TRUSTEE MEETINGS |   | AUDIT COMMITTEE MEETINGS |   | ANNUAL GENERAL MEETING |   | BENEFIT REVIEW |   | CONTRIBUTION REVIEW |   |
|--|------------------|---|--------------------------|---|------------------------|---|----------------|---|---------------------|---|
|  | A                | B | A                        | B | A                      | B | A              | B | A                   | B |
| <b>Principal Officer</b>               |                  |   |                          |   |                        |   |                |   |                     |   |
| JJ van der Walt<br>(Principal Officer) | 4                | 4 | 2                        | 2 | 1                      | 1 | 1              | 1 | 1                   | 1 |

| <b>Audit committee members</b> | AUDIT COMMITTEE MEETINGS |   |
|--------------------------------|--------------------------|---|
|                                | A                        | B |
| R Mumford (Chairman) (C)       | 2                        | 2 |
| L Hollander (C)                | 2                        | 2 |
| PRW Meier                      | 2                        | 1 |
| RA Venter                      | 1                        | 1 |
| G Nzalo (C)                    | 2                        | 2 |
| A De Waal (C)                  | 2                        | 2 |
| C de Klerk                     | 1                        | 0 |

**A** – total possible number of meetings could have attended (this include benefit and contribution review meetings)

**B** – actual number of meetings attended

**C** – independent members

## 13. NON-COMPLIANCE MATTERS

The following areas of non-compliance with the Act were identified during the year:

### **Contravention of section 26(7)**

#### ***Nature and impact***

In terms of section 26(7) of the Act, contributions must be paid directly to a medical scheme by no later than three business days after payment becomes due. Amounts were received after the prescribed three business days of the month following the last business day in which it became due, as stipulated in the rules.

### 13. NON-COMPLIANCE MATTERS (CONTINUED)

#### **Contravention of Section 26(7) (continued)**

##### *Causes for the failure*

Contributions were identified that were received more than three business days after payment became due and relates to Employer Groups 4000 and 4144, which is in contravention of both the Scheme Rules and the Act since the contributions were paid late on a few occasions. A few instances on the debit order runs were also picked up where a member did not have sufficient funds in his/her bank account or where the member closed his/her bank account, resulting in rejected debit orders. The Scheme would then need to follow up on these amounts to arrange payment.

##### *Corrective action*

The administrator took remedial action through Medi Call (Pty) Ltd against defaulting Employer Groups and members in accordance with the approved debt mandate provided by the Scheme.

#### **Contravention of Section 35(8)(a) and (c)**

##### *Nature and impact*

In terms of section 35(8)(a) and (c) of the Act, a Scheme shall not invest any of its assets in an employer who participates in the medical scheme or any administrator associated with the medical scheme.

##### *Causes for the failure*

The Scheme holds an indirect investment in Imperial Holdings Limited through its linked insurance policy investment with Sygnia Life Limited.

The Scheme also holds an indirect investment in MMI Holdings Limited (holding company of the administrator), through its linked insurance policy investment with Sygnia Life Limited.

##### *Corrective action*

The non-compliance is as a result of the Scheme's assets being invested in a linked policy of insurance. The Scheme does not dictate to the asset managers which investment holding to purchase. These investments are part of the total insured portfolio and selling this non-compliant investment would result in the complete sale of the entire portfolio.

The Scheme reapplied for an exemption from Section 35(8)(a) and (c) which was granted on 6 October 2015. This exemption is valid until 6 October 2016.



### 13. NON-COMPLIANCE MATTERS (CONTINUED)

#### **Contravention of Regulation 8**

##### *Nature and impact*

Regulation 8 (1) of the Medical Schemes Act no 131 of 1998 states that subject to the provisions of this regulation, any benefit option that is offered by a medical scheme must pay in full, without co-payment or the use of deductibles, the diagnosis, treatment and care costs of the Prescribed Minimum Benefit (PMB) conditions. During the review of the PMB's, MMI Group Internal Audit noted two instances where PMB claim lines were not settled in full.

##### *Causes for the failure*

The administration system is programmed to settle all potential PMB claims per Scheme directive. However, we acknowledge that identifying a claim as PMB is a complex issue given the lack of a workable industry (ICD10) coding system.

##### *Corrective action*

Claims Management will continue to send the identified exception reports to Fund Management, who will alert the Scheme of potential PMB claims. Thereafter, Fund Management will execute the instructions as mandated by the Scheme.

#### **Contravention of Regulation 30**

##### *Nature and impact*

Explanatory note 2 to Annexure B read in conjunction with Regulation 30 of the Medical Schemes Act 131 of 1998, as clarified in Circular 23 of 2012, requires that the sum of deposits in categories 1(a)(i) and 1(a)(ii) exceed 20% of assets in terms of Regulation 30. At year end, the Imperial Group Medical Scheme did not meet this requirement.

##### *Causes for the failure*

The Scheme invests in the Investec Stable Money Market Fund through a linked policy of insurance in order to optimize return on its cash reserves. The bond exposure from this Fund is excluded from categories 1(a)(i) and 1(a)(ii) resulting in the non-compliance.

##### *Corrective action*

The Imperial Group Medical Scheme is in the process of requesting exemption from this requirement from the Council for Medical Schemes, based on the liquidity characteristics of the Investec Stable Money Market Fund.

## **STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES**

The Trustees are responsible for the preparation, integrity and fair presentation of the annual financial statements of Imperial Group Medical Scheme, comprising the statement of financial position at 31 December 2015, the statement of comprehensive income, the statement of changes in funds and reserves, the statement of cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Medical Schemes Act of South Africa.

The Trustees' responsibilities include: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Trustees' responsibilities also include maintaining adequate accounting records and an effective system of risk management. The Trustees have ultimate responsibility for the system of internal control.

The Trustees are satisfied that the information contained in the annual financial statements fairly presents the financial performance for the year and the financial position of the Scheme at year-end. The Trustees also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the financial statements.

Imperial Group Medical Scheme operates in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded, and the risks facing the business are being controlled.

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. These annual financial statements support the viability of the Scheme.

The Scheme's external auditors are responsible for auditing the financial statements in terms of International Standards on Auditing and their report is presented on pages 16 and 17.

### **APPROVAL OF ANNUAL FINANCIAL STATEMENTS**

The annual financial statements of Imperial Group Medical Scheme set out on pages 18 to 67 as identified in the first paragraph, were approved by the Board of Trustees on 21 April 2016 and are signed on its behalf by:



Chairman



Trustee



Principal Officer

## STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

Imperial Group Medical Scheme is committed to the principles and practices of fairness, openness, integrity and accountability in all dealings with its stakeholders. The trustees are proposed and elected by the members of the Scheme and the employers ensuring equal representation of elected and appointed members.

### BOARD OF TRUSTEES

The trustees meet regularly and monitor the performance of the administrators. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive.

All trustees have access to the advice and services of the principal officer and, where appropriate, may seek independent professional advice at the expense of the Scheme.

### INTERNAL CONTROL

The administrators of the Scheme maintain internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability for its assets adequately. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

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

The trustees have reviewed the most recent Service Organisation Review Report of the administrator produced for the administration platform, to assist in assessing the adequacy of the internal control environment.

The control objectives that were not achieved have been noted as have the action points initiated by the administrator to rectify these weaknesses. The trustees agree with the conclusion reached by the administrator that overall operational control was achieved in 2015.



Chairman



Trustee



Principal Officer

Date: 21 April 2016

# REPORT OF THE INDEPENDENT AUDITOR

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Imperial Group Medical Scheme set out on pages 18 to 67, which comprise the statement of financial position at 31 December 2015, and the statements of comprehensive income, changes in funds and reserves and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### *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 the requirements of the Medical Schemes Act of South Africa, and for such internal control as the trustees determine is necessary to enable the preparation of the financial statements that are free from material misstatement, 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 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.

# REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)

## REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position Imperial Group Medical Scheme at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### *Non-compliance with the Medical Schemes Act*

As required by the Council for Medical Schemes, we report that there were no material instances of non-compliance with the requirements of the Medical Schemes Act of South Africa, that have come to our attention during the course of our audit.

The logo for Deloitte & Touche, featuring the company name in a stylized, handwritten script font.

**DELOITTE & TOUCHE**

Registered Auditors

Per: D Crowther

Partner

21 April 2016

## STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2015

|                                    | Notes | 2015<br>R          | 2014<br>R          |
|------------------------------------|-------|--------------------|--------------------|
| <b>ASSETS</b>                      |       |                    |                    |
| <b>Non-current assets</b>          |       |                    |                    |
| Available-for-sale investments     | 2     | 196 672 731        | 186 029 470        |
| <b>Current assets</b>              |       |                    |                    |
| Trade and other receivables        | 3     | 14 122 728         | 11 383 967         |
| Cash and cash equivalents          | 4     | 104 631 953        | 91 757 068         |
| <b>Total assets</b>                |       | <b>315 427 412</b> | <b>289 170 505</b> |
| <b>FUNDS AND LIABILITIES</b>       |       |                    |                    |
| <b>Members' funds</b>              |       |                    |                    |
| Accumulated funds                  |       | 278 832 645        | 239 156 019        |
| Available-for-sale reserve         |       | 22 151 265         | 38 500 601         |
| <b>Current liabilities</b>         |       |                    |                    |
| Outstanding claims provision       | 5     | 12 887 796         | 10 238 945         |
| Trade and other payables           | 6     | 1 555 706          | 1 274 940          |
| <b>Total funds and liabilities</b> |       | <b>315 427 412</b> | <b>289 170 505</b> |



## STATEMENT OF COMPREHENSIVE INCOME

### FOR THE YEAR ENDED 31 DECEMBER 2015

|  | Notes | 2015          | 2014          |
|--|-------|---------------|---------------|
|  |       | R             | R             |
| <b>Net contribution income</b>                                   | 7     | 326 744 775   | 296 893 162   |
| <b>Relevant healthcare expenditure</b>                           |       | (294 844 681) | (275 277 911) |
| Net claims incurred  | 8     | (288 331 750) | (269 229 801) |
| Claims incurred  |       | (289 503 844) | (269 555 717) |
| Third party claim recoveries                                     |       | 1 172 094     | 325 916       |
| Managed care: management services                                | 9     | (6 512 931)   | (6 048 110)   |
| <b>Gross healthcare result</b>                                   |       | 31 900 094    | 21 615 251    |
| Administration and other expenses                                | 10    | (20 847 213)  | (19 380 862)  |
| Net impairment reversals on healthcare receivables               | 11    | (14 812)      | 1 035 862     |
| <b>Net healthcare result</b>                                     |       | 11 038 069    | 3 270 251     |
| <b>Other income</b>  |       | 29 234 492    | 24 892 004    |
| Investment income  | 12    | 5 881 796     | 4 900 773     |
| Realised gains on investments                                    | 13    | 23 352 695    | 19 991 231    |
| <b>Other expenditure</b>   |       | (595 935)     | (559 508)     |
| Asset management fees  |       | (595 935)     | (559 508)     |
| <b>Surplus for the year</b>                                      |       | 39 676 626    | 27 602 747    |
| <b>Other comprehensive income</b>                                |       |               |               |
| Unrealised gain on revaluation of available-for-sale investments | 2     | (16 349 335)  | (3 743 927)   |
| <b>Total comprehensive income for the year</b>                   |       | 23 327 290    | 23 858 820    |

## STATEMENT OF CHANGES IN FUNDS AND RESERVES

FOR THE YEAR ENDED 31 DECEMBER 2015

|  | Accumulated funds | Available-for-sale reserve | Total members' funds |
|--|-------------------|----------------------------|----------------------|
|  | R                 | R                          | R                    |
| <b>Balance as at 1 January 2014</b>                              | 211 553 272       | 42 244 528                 | 253 797 800          |
| Surplus for the year   | 27 602 747        |                            | 27 602 747           |
| Other comprehensive income                                       |                   | (3 743 927)                | (3 743 927)          |
| Reclassification adjustments relating to investments disposed of |                   | (19 991 231)               | (19 991 231)         |
| Net gain arising from revaluation of investments                 |                   | 16 247 304                 | 16 247 304           |
| <b>Balance as at 31 December 2014</b>                            | 239 156 019       | 38 500 601                 | 277 656 620          |
| Surplus for the year   | 39 676 626        |                            | 39 676 626           |
| Other comprehensive income                                       |                   | (16 349 335)               | (16 349 335)         |
| Reclassification adjustments relating to investments disposed of |                   | (23 352 695)               | (23 352 695)         |
| Net gain arising from revaluation of investments                 |                   | 7 003 360                  | 7 003 360            |
| <b>Balance as at 31 December 2015</b>                            | 278 832 645       | 22 151 265                 | 300 983 910          |

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

|   | Notes | 2015<br>R     | 2014<br>R    |
|---|-------|---------------|--------------|
| <b>Cash flows utilised in operating activities</b>                  |       |               |              |
| Cash flows generated from operations before working capital changes | 15    | 21 727 657    | 12 932 126   |
| Working capital changes   |       |               |              |
| Increase in trade and other receivables (gross of impairments)      |       | (2 703 553)   | ( 232 182)   |
| Increase/(Decrease) in trade and other payables                     |       | 280 766       | (803 058)    |
| Payments on outstanding claims provision                            |       | (8 621 860)   | (13 177 046) |
| <b>Net cash inflow/(outflow) from operating activities</b>          |       | 10 683 010    | (1 280 160)  |
| <b>Cash flows from investing activities</b>                         |       |               |              |
| Purchase of investments   | 2     | (124 180 424) | (89 425 867) |
| Proceeds on disposal of investments                                 | 2     | 120 540 523   | 92 503 126   |
| Investment income   |       | 5 831 776     | 4 854 355    |
| <b>Net cash inflow from investing activities</b>                    |       | 2 191 875     | 7 931 614    |
| <b>Net increase in cash and cash equivalents</b>                    |       | 12 874 885    | 6 651 454    |
| Cash and cash equivalents at the beginning of the year              |       | 91 757 068    | 85 105 614   |
| <b>Cash and cash equivalents at the end of the year</b>             | 4     | 104 631 953   | 91 757 068   |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 1. PRINCIPAL ACCOUNTING POLICIES

The following are the principal accounting policies used by the Scheme, that are consistent with those of the previous year, unless otherwise indicated.

#### 1.1 Basis of preparation

The annual financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS comprise International Financial Reporting Standards, International Accounting Standards ("IAS") and the interpretations originated by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standards Interpretations Committee ("SIC"). The standards referred to are set by the International Accounting Standards Board ("IASB"). The financial statements are prepared on a going concern basis using the historical cost convention, except for available-for-sale investments, which are carried at fair value. All monetary information and figures presented in these financial statements are stated in South African Rand.

#### 1.2 Standards and interpretations

##### *Standards and interpretations applicable to the Scheme that are not yet effective*

The following new standards and amendments to IFRS are not yet effective for the current financial year. The Scheme will comply with the new standards and interpretations from the various effective dates.

##### *IFRS 9 financial instruments*

IFRS 9 Financial Instruments (effective 1 January 2018) - IFRS 9 contains three principal classification categories for financial assets, ie measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale are removed. IFRS 9 retains almost all of the existing requirements from IAS 39 for financial liabilities. However any gain or loss on a financial liability designated at FVTPL attributable to changes in own credit risk is generally presented in OCI with remaining change in fair value presented in profit or loss. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' approach for debt instruments measured at amortised cost or FVOCI. IFRS 9 will align hedge accounting more closely with risk management of an entity. In terms of IFRS 9 additional exposures may be hedged items. IFRS 9 will be adopted for the

## 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 1.2 Standards and interpretations (continued)

#### *IFRS 9 financial instruments (continued)*

first time for the year ending 31 December 2018. The impact on the financial statements has not yet been estimated.

#### *IFRS 15 Revenue from contracts with customers*

Establishes principles for reporting useful information to users of the financial statements about the nature, amounts, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The amendments to the standard are effective for annual periods commencing on or after 1 January 2017.

#### *Standards adopted in the current year*

The following standards are effective for the current financial year. The Scheme complies with the new standard from the effective date. These standards had no material impact on the financial statements.

#### *IAS 24 Related party disclosures*

The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').

The amendments to the standard are effective for annual periods commencing on or after 1 July 2014.

#### *IAS 32 offsetting financial assets and financial liabilities*

The amendments address inconsistencies in applying the offsetting criteria and clarify that offsetting liabilities is required:

- » when an entity currently has a legally enforceable right to set off recognised amounts; and
- » when gross settlement is equivalent to net settlement.

The amendments to the standard were effective for annual periods commencing on or after 1 January 2014.

## 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 1.2 Standards and interpretations (continued)

#### *IAS 36 Impairment of assets*

These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal.

The amendments to the standard were effective for annual periods commencing on or after 1 January 2014.

### 1.3 Financial instruments

The Scheme classifies its financial assets into available-for-sale investments and trade and other receivables. The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of the Scheme's financial assets at initial recognition and re-evaluate this at every reporting date to ensure appropriate classification.

#### *Measurement*

Financial instruments are initially measured at fair value plus transaction costs. In the case of financial assets and liabilities not held at fair value through profit or loss, the transaction costs that are directly attributable to acquisition or issue of the financial asset or liability, are added to the fair value. Subsequent to initial recognition, these instruments are measured as set out below.

#### *Available-for-sale investments*

All purchases and sales of investments or transfers into and out of insurance policies are recognised on the trade date, which is the date that the Scheme commits to purchase or sell the asset or transfer funds. Cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of the available-for-sale investments are recognised in other comprehensive income and accumulated in the available-for-sale reserve. Once an available-for-sale investment is sold, the realised gain or loss is included in the surplus or deficit for the year.

#### *Trade and other receivables*

Trade and other receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost, using the effective interest rate method and taking into account accumulated impairment losses. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit in the statement of comprehensive

## 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 1.3 Financial instruments (continued)

#### *Trade and other receivables (continued)*

income when there is objective evidence that the asset is impaired. Permanent impairments are written off to surplus or deficit in the statement of comprehensive income when identified.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term liquid investments that are readily convertible within a three month period to a known amount of cash. Cash and cash equivalents are stated at amortised cost.

#### *Financial liabilities*

Financial liabilities, which consist of trade and other payables, are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

#### *Derecognition of financial instruments*

#### *Financial assets*

The Scheme derecognises a financial asset when:

- » the contractual rights to the cash flows arising from the financial assets have expired or been forfeited by the Scheme; or
- » it transfers the financial asset, including substantially all the risks and rewards of ownership of the asset; or
- » it transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset; or
- » it transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset and no longer retains control of the asset.

#### *Financial liabilities*

The Scheme derecognises financial liabilities once the obligation has been fully discharged.

### 1.4 Provisions

Provisions are recognised when the Scheme has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

## 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 1.4 Provisions (continued)

#### *Outstanding claims*

Claims outstanding comprise provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred but not yet reported at the reporting date and related internal and external claims handling expenses. 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 gender and age, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim.

The Scheme does not discount its provision for outstanding claims, since the effect of the time value of money is not considered material.

### 1.5 Insurance contracts

Contracts under which the Scheme accepts significant insurance risk from another party (the member) 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.

### 1.6 Contribution income

Contributions are accounted for monthly when their collection in terms of the insurance contract is reasonably certain. The earned portion of net contributions received is recognised as revenue. Net contributions are earned from the date of attachment of risk, over the indemnity period.

### 1.7 Relevant healthcare expenditure

Relevant healthcare expenditure consists of net claims incurred and net income or expense from risk transfer arrangements.

#### *Claims*

Gross claims incurred comprise the total estimated cost of 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 the year.



## 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 1.7 Relevant healthcare expenditure (continued)

#### *Claims (continued)*

Net claims incurred comprise:

- » claims submitted and accrued for services rendered during the accounting period, net of recoveries from members for co-payments and savings plan accounts;
- » claims for services rendered during the previous year not included in the outstanding claims provision for that year, net of recoveries from members for co-payments; and
- » charges for managed care: healthcare services (excluding risk transfer arrangements).

#### *Liability adequacy test*

The liability for insurance contracts is tested for adequacy by comparing current best estimates of all future contractual cash flows, including related cash flows such as claims handling costs, and comparing this amount to the carrying value of the liability. Where a shortfall is identified, an additional provision is made and the Scheme recognises the deficiency in income for the year.

### 1.8 Investment income

Interest income is recognised on a yield to maturity basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Scheme.

Realised income from insurance policies is recognised on disinvestment. All other amounts credited under insurance policies are reflected as unrealised income and raised directly in other comprehensive income.

Income from insurance policies is recognised when entitlement to revenue is established.

### 1.9 Impairment losses

#### *Impairment of assets*

The carrying amounts of the Scheme's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

## 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 1.9 Impairment losses (continued)

#### *Impairment of assets (continued)*

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in surplus or deficit in the statement of comprehensive income.

#### *Impairment of financial assets*

##### (i) Available-for-sale investments

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in reserves and there is objective evidence that the asset is permanently impaired, the cumulative loss that had been recognised directly in reserves is recognised in surplus or deficit in the statement of comprehensive income even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the statement of comprehensive income is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit in the statement of comprehensive income.

##### (ii) Financial and insurance assets measured at amortised cost

An appropriate allowance for estimated irrecoverable amounts is recognised in surplus or deficit in the statement of comprehensive income when there is objective evidence that the asset is impaired. This allowance is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairments are written off to surplus or deficit in the statement of comprehensive income when identified.

#### *Calculation of recoverable amount*

The recoverable amount of the Scheme's receivables is estimated at the present value of expected future cash flows. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell, 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.

## 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 1.9 Impairment losses (continued)

#### *Reversals of impairment*

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through surplus or deficit in the statement of comprehensive income. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in surplus or deficit in the statement of comprehensive income, the impairment loss shall be reversed, with the amount of the reversal recognised in surplus or deficit.

An impairment loss is reversed if 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.

### 1.10 Offset

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.

### 1.11 Managed Care: Management services expenses

These expenses represent internal expenditure and the amounts paid or payable to the third party Scheme administrators, related parties and other third parties for managing the utilisation, costs and quality of healthcare services to the Scheme.

### 1.12 Road Accident Fund ("RAF")

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 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. A reimbursement from the RAF is a possible asset that arises from claims submitted to the RAF and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Scheme.

## 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 1.12 Road Accident Fund (“RAF”) (continued)

The contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset. Any recoveries are credited against claims expense in the year of receipt.

### 1.13 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

### 1.14 Critical judgments and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Scheme’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the annual financial statements, are disclosed in Note 22.

### 1.15 Unclaimed savings and unclaimed cheques

Unclaimed savings and unclaimed cheques are written back to surplus once prescribed.

### 1.16 Functional and presentation currency

Items included in the annual financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (“the functional currency”). The financial statements are presented in South African Rand (“the presentation currency”), which is the functional currency of the Scheme.

### 1.17 Allocation of income and expenditure to benefit options

Income and expenditure are allocated to benefit options on a direct basis where this is determinable. Where income or expenditure is not directly attributable to a specific benefit option, the income or expense is allocated on the basis of the benefit option’s membership proportionate to the Scheme’s overall membership base.

The following items are directly allocated to benefit options:

- » Risk contribution income
- » Relevant healthcare expenditure



## 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 1.17 Allocation of income and expenditure to benefit options (continued)

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

- » Managed care: management services;
- » Administration and other expenses;
- » Other income;
- » Other expenditure;

## 2. AVAILABLE-FOR-SALE INVESTMENTS

|  | <b>2015</b>   | <b>2014</b>  |
|--|---------------|--------------|
|  | <b>R</b>      | <b>R</b>     |
| Fair value at the beginning of the year                          | 186 029 470   | 172 859 425  |
| Additions  | 124 180 424   | 89 425 867   |
| Disposals  | (120 540 523) | (92 503 126) |
| Net gain   | 7 003 360     | 16 247 304   |
| Realised gain on disposal of available-for-sale investments      | 23 352 695    | 19 991 231   |
| Unrealised gain on revaluation of available-for-sale Investments | (16 349 335)  | (3 743 927)  |
| Fair value at the end of the year                                | 196 672 731   | 186 029 470  |
| <b>Invested with</b>   |               |              |
| Allan Gray Life Limited  | -             | 20 642 077   |
| Sygnia Life Limited  | 196 672 731   | 165 387 393  |
|  | 196 672 731   | 186 029 470  |

Notes to the Annual Financial Statements  
For the year ended 31 December 2015

3. TRADE AND OTHER RECEIVABLES

**Insurance receivables**

|                                     |            |            |
|-------------------------------------|------------|------------|
| Contributions outstanding           | 13 854 020 | 11 175 092 |
| Recoveries from members             | 8 900      | 26 615     |
| Supplier overpayments               | 114 375    | 107 345    |
|                                     | 13 977 295 | 11 309 052 |
| Less: accumulated impairment losses | (63 205)   | (63 703)   |
|                                     | 13 914 090 | 11 245 349 |

**Non-insurance receivables**

|                           |            |            |
|---------------------------|------------|------------|
| Accrued investment income | 188 638    | 138 618    |
| Prepaid expenses          | 20 000     | -          |
|                           | 14 122 728 | 11 383 967 |

**Analysis of movement in respect of insurance receivables**

|                                      |            |            |
|--------------------------------------|------------|------------|
| Balance at the beginning of the year | 11 309 052 | 11 083 846 |
| Adjustment for current year          | 2 668 243  | 225 206    |
| Balance at the end of the year       | 13 977 295 | 11 309 052 |

The carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets.

#### 4. CASH AND CASH EQUIVALENTS

|                                 | 2015        | 2014       |
|---------------------------------|-------------|------------|
|                                 | R           | R          |
| Call accounts                   | 18 808 577  | 21 232 368 |
| Current accounts                | 27 494 401  | 15 953 232 |
| Money market                    | 58 328 975  | 54 571 468 |
| Total cash and cash equivalents | 104 631 953 | 91 757 068 |

The Scheme's holding in the call and money market accounts are via linked policies of insurance. The Scheme does therefore not hold direct access to the accounts.

The weighted average effective interest rate on current accounts was 3.85% (2014: 2.99%) and deposits were 6.53% (2014: 5.85%). The carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets.

#### 5. OUTSTANDING CLAIMS PROVISION

|  | Not covered by<br>risk transfer<br>arrangements<br>2015 | Not covered by<br>risk transfer<br>arrangements<br>2014 |
|--|---|---|
|  | R   | R   |
| Provision for outstanding claims – incurred but not yet reported | 12 887 796  | 10 238 945  |
| Provision arising from liability adequacy test                   | -   | -   |
|  | 12 887 796  | 10 238 945  |
| <b>Analysis of movements in outstanding claims</b>               |   |   |
| Balance at beginning of year                                     | 10 238 945  | 12 158 746  |
| Payments in respect of prior year                                | (8 621 860)   | (13 177 046)  |
| (Over)/Under provisions in the prior year                        | 1 617 085   | (1 018 300)   |
| Adjustment for current year                                      | 11 270 711  | 11 257 245  |
| Balance at end of year   | 12 887 796  | 10 238 945  |

## 5. OUTSTANDING CLAIMS PROVISION (CONTINUED)

### Assumptions and sensitivity

#### *Process used to determine the assumptions*

The process used to determine the assumptions is intended to result in a neutral estimate of the most likely or expected outcome. The sources of data used as inputs for the provision are internal, using detailed studies that are carried out annually. There is more emphasis on current trends, and where in early months there is insufficient information to make a reliable best estimate of outstanding claims, prudent assumptions are used.

The provision is based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by category of claims (e.g. in-hospital and chronic benefits) due to differences in the underlying insurance contract, claim complexity, the volume of claims, the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

#### *Method used to determine the assumptions*

The Chain Ladder method is used to estimate the most likely cost of outstanding claims. This method extrapolates the development of paid and incurred claims to estimate the ultimate claim numbers for each benefit month based upon observed developments of earlier months. Run off triangles (as per the Chain Ladder method) are used where it takes time after the treatment date until the full extent of the claims to be paid is known. It is assumed that payments will emerge in a similar way in each service month. The proportional increase in the known cumulative payments from one development month to the next can then be used to calculate payments for future development months.

The Chain Ladder method used varies by benefit month being considered, categories of claims and observed historical claims developments. To the extent that this method uses historical claims development information they assume 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. Such reasons include:

- » changes in processes that affect the development / recording of claims paid and incurred (such as changes in claim reserving procedures);
- » economic, legal, political and social trends (resulting in different than expected levels of inflation and/or minimum medical benefits to be provided);
- » changes in composition of members and their dependents; and
- » random fluctuations, including the impact of large losses.



## 5. OUTSTANDING CLAIMS PROVISION (CONTINUED)

### *Method used to determine the assumptions (continued)*

The accuracy of the model is evaluated against actual known cumulative payments experienced after the reporting date insofar as these claims' payments relate to the financial year end. The provision is revised if necessary, as with each additional month of claims payment data, the claims incurred and hence the provision at reporting date becomes an actual known amount.

### *Assumptions*

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the expected percentages of claims settled after each of the first four months of the claims run-off period, before the claims turn stale.

The percentages used as assumptions are listed in the table below. The table also outlines the sensitivity of these percentages, and the impact on the Scheme's liabilities if an incorrect assumption is used.

### *Other assumptions*

- » the claims provision is not discounted;
- » a constant proportion of total claims arising within a service month in subsequent months;
- » the claims are assumed to be fully run-off within 10 months;
- » the pattern of the inflation in the existing data will be projected into the future;
- » any distortions as a result of once-off events are isolated from the claims data set; and
- » claims are assumed to have a stable run-off pattern.

The assumed percentages of claims outstanding at the end of the period:

Claims outstanding for:

- » December
- » November
- » October
- » September
- » August and prior

|                  | 2015 | 2014 |
|------------------|------|------|
|                  | %    | %    |
| December         | 48   | 43   |
| November         | 8    | 11   |
| October          | 6    | 4    |
| September        | 3    | 2    |
| August and prior | 1    | 1    |

## 5. OUTSTANDING CLAIMS PROVISION (CONTINUED)

### *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 correlations between the key variables.

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.

The impact of the sensitivity of the assumed percentages for the four month period September until December is set out below:

|   | Increase in liability<br>2015 | Increase in liability<br>2014 |
|---|-------------------------------|-------------------------------|
|   | R                             | R                             |
| Effect of a 1% increase in assumed percentage | 1 148 000                     | 996 000                       |
| Effect of a 2% increase in assumed percentage | 2 328 000                     | 2 018 000                     |
| Effect of a 3% increase in assumed percentage | 3 540 000                     | 3 066 000                     |

The existing accounting policy relating to the outstanding claims provision considers current estimates of all future contractual cash flows, therefore in terms of paragraph 15 to 19 of IFRS 4, no further liability adequacy test is required.

## 6. TRADE AND OTHER PAYABLES

### Insurance payables

Contributions overpaid or unmatched contributions

### Non insurance payables

Audit fees

Accrual for realised gain/(loss) on Stanlib Bond portfolio

Shortfall credits

Sundry creditors

|  | 2015      | 2014      |
|--|-----------|-----------|
|  | R         | R         |
|  | 117 052   | 88 230    |
|  | 1 438 654 | 1 186 710 |
|  | 350 539   | 319 200   |
|  | 112 220   | -         |
|  | 263 806   | 249 300   |
|  | 712 089   | 618 210   |
|  |           |           |
|  | 1 555 706 | 1 274 940 |

The carrying amounts of trade and other payables approximate their fair values due to the short-term maturities of these liabilities.

## 7. NET CONTRIBUTION INCOME

Gross and net contribution income

|  |             |             |
|--|-------------|-------------|
|  | 326 744 775 | 296 893 162 |
|--|-------------|-------------|

Notes to the Annual Financial Statements  
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8. RELEVANT HEALTHCARE EXPENDITURE

|   | 2015               | 2014               |
|---|--------------------|--------------------|
|   | R                  | R                  |
| <b>Claims incurred excluding claims incurred in respect of risk transfer arrangements</b> |                    |                    |
| Current year claims   | 278 233 133        | 256 783 576        |
| Movement in outstanding claims provision (Over)/Under provision in prior year             | 11 270 711         | 11 257 245         |
| Provision balance at the end of the year  | (1 617 085)        | 1 018 300          |
| Ex gratia payments  | 12 887 796         | 10 238 945         |
| Total claims incurred   | -                  | 1 514 896          |
|   | 289 503 844        | 269 555 717        |
| Less: Third party recoveries  | (1 172 094)        | (325 916)          |
| <b>Total relevant healthcare expenditure</b>  | <b>288 331 750</b> | <b>269 229 801</b> |

9. MANAGED CARE: MANAGEMENT SERVICES

|   |           |           |
|---|-----------|-----------|
| Specialist, hospital referrals and pre-authorisations | 2 354 280 | 2 168 478 |
| HIV/AIDS management                                   | 503 589   | 463 130   |
| PMB Medical Management                                | -         | 209 952   |
| Pharmacy Benefit Management                           | 690 337   | 636 032   |
| Disease Risk Management                               | 1 250 580 | 1 151 650 |
| Medicine Risk Management                              | 1 257 924 | 1 157 825 |
| Specialist network management: MHRM                   | 162 424   | -         |
| GP Network Management                                 | 293 797   | 261 043   |
|   | 6 512 931 | 6 048 110 |



## 10. ADMINISTRATION AND OTHER EXPENSES

|   | 2015       | 2014       |
|---|------------|------------|
|   | R          | R          |
| Administrator's fees  | 12 170 553 | 11 210 544 |
| Audit fees  | 350 538    | 314 508    |
| Actuarial fees  | 670 320    | 712 967    |
| Bank charges  | 136 127    | 160 565    |
| Benefit management services: Europe Assist                      | 131 359    | 124 142    |
| Benefit management services: Willis Towers Watson               | 95 760     | -          |
| Board of Healthcare Funders' levies                             | 79 116     | 73 222     |
| Commission  | 1 340 344  | 1 283 889  |
| Consulting fees   | 30 300     | 14 860     |
| Council for Medical Schemes' levies                             | 236 611    | 210 815    |
| Fidelity guarantee and professional indemnity insurance premium | 20 000     | 20 000     |
| Legal fees  | 22 053     | 53 575     |
| Multiply Wellness Programme                                     | 588 232    | 540 434    |
| Other expenses  | 9 576      | 19 546     |
| Principal Officer's fees  | 232 013    | 218 880    |
| Printing & stationery   | 184 014    | 134 176    |
| Scheme management services                                      | 4 545 401  | 4 285 090  |
| Travel and entertainment  | 4 896      | 3 649      |
|   | 20 847 213 | 19 380 862 |

### 10.1. TRUSTEES' AND PRINCIPAL OFFICER'S EXPENSES

The following records the remuneration and consideration paid to officers of the Scheme during the year:

#### Fees for consultancy services

Paid to the Employer of the Principal Officer

|  |         |         |
|--|---------|---------|
|  | 232 013 | 218 880 |
|--|---------|---------|



Notes to the Annual Financial Statements  
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11. NET IMPAIRMENT REVERSALS

|   | 2015    | 2014        |
|---|---------|-------------|
|   | R       | R           |
| <i>Trade and other receivables</i>                                |         |             |
| Contributions that are not collectable                            | 8 169   | (1 059 422) |
| Movement in the allowance account for impairment losses           | 2 889   | (1 065 767) |
| Written off   | 5 280   | 6 345       |
| Members' and service providers' portions that are not recoverable | 6 741   | 23 560      |
| Movement in the allowance account for impairment losses           | (3 386) | 22 927      |
| Written off   | 10 127  | 634         |
| Less: Previous impairment losses recovered                        | (98)    | -           |
|   | 14 812  | (1 035 862) |

12. INVESTMENT INCOME

|                 |           |           |
|-----------------|-----------|-----------|
| Interest income | 5 881 796 | 4 900 773 |
|-----------------|-----------|-----------|

13. REALISED GAINS ON INVESTMENT

|  |            |            |
|--|------------|------------|
| Realised gains on disposal of available-for-sale investments | 23 352 695 | 19 991 231 |
|--|------------|------------|

#### 14. SURPLUS AFTER INVESTMENT INCOME, OTHER INCOME AND OTHER EXPENDITURE, PER BENEFIT OPTION

|  | Imperialmed Health Plan | Imperialmed Budget Plan | Imperialmed  |
|--|-------------------------|-------------------------|--------------|
| 2015   | R                       | R                       | R            |
| <b>Net contribution income</b>                     | 317 064 851             | 9 679 924               | 326 744 775  |
| <b>Relevant healthcare expenditure</b>             | 288 030 048             | 6 814 634               | 294 844 681  |
| Net claims incurred                                | 282 152 634             | 6 179 117               | 288 331 750  |
| Claims incurred                                    | 283 255 416             | 6 248 429               | 289 503 844  |
| Third party claim recoveries                       | (1 102 782)             | (69 312)                | (1 172 094)  |
| Managed care: management services                  | 5 877 414               | 635 517                 | 6 512 931    |
| <b>Gross healthcare result</b>                     | 29 034 803              | 2 865 290               | 31 900 094   |
| Administration and other expenses                  | (19 696 303)            | (1 150 910)             | (20 847 213) |
| Net impairment reversals on healthcare receivables | (14 030)                | (782)                   | (14 812)     |
| <b>Net healthcare result</b>                       | 9 324 470               | 1 713 599               | 11 038 069   |
| <b>Other income</b>                                | 27 805 088              | 1 429 403               | 29 234 492   |
| Investment income                                  | 5 706 973               | 174 823                 | 5 881 796    |
| Realised gains on investments                      | 22 098 115              | 1 254 580               | 23 352 695   |
| Sundry income                                      | -                       | -                       | -            |
| <b>Other expenditure</b>                           | (563 016)               | (32 919)                | (595 935)    |
| Asset management fees                              | (563 016)               | (32 919)                | (595 935)    |
| <b>Surplus for the year</b>                        | 36 566 542              | 3 110 083               | 39 676 626   |

Notes to the Annual Financial Statements  
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14. SURPLUS AFTER INVESTMENT INCOME, OTHER INCOME AND OTHER EXPENDITURE, PER BENEFIT OPTION (CONTINUED)

|  | Imperialmed Health Plan | Imperialmed Budget Plan | Imperialmed  |
|--|-------------------------|-------------------------|--------------|
| 2014   | R                       | R                       | R            |
| <b>Net contribution income</b>                     | 292 290 863             | 4 602 299               | 296 893 162  |
| <b>Relevant healthcare expenditure</b>             | 272 205 937             | 3 071 974               | 275 277 911  |
| Net claims incurred                                | 266 588 389             | 2 641 412               | 269 229 801  |
| Claims incurred                                    | 266 906 915             | 2 648 802               | 269 555 717  |
| Third party claim recoveries                       | (318 526)               | (7 390)                 | (325 916)    |
| Managed care: management services                  | 5 617 548               | 430 562                 | 6 048 110    |
| <b>Gross healthcare result</b>                     | 20 084 926              | 1 530 325               | 21 615 251   |
| Administration and other expenses                  | (18 806 045)            | (574 817)               | (19 380 862) |
| Net impairment reversals on healthcare receivables | 1 006 430               | 29 432                  | 1 035 862    |
| <b>Net healthcare result</b>                       | 2 285 311               | 984 940                 | 3 270 251    |
| <b>Other income</b>                                | 24 341 295              | 550 709                 | 24 892 004   |
| Investment income                                  | 4 753 752               | 147 021                 | 4 900 773    |
| Realised gains on investments                      | 9 587 543               | 403 688                 | 19 991 231   |
| Sundry income                                      | -                       | -                       | -            |
| <b>Other expenditure</b>                           | (542 975)               | (16 533)                | (559 508)    |
| Asset management fees                              | (542 975)               | (16 533)                | (559 508)    |
| <b>Surplus for the year</b>                        | 26 083 631              | 1 519 116               | 27 602 747   |



## 15. CASH FLOWS GENERATED FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES

|  | 2015         | 2014         |
|--|--------------|--------------|
|  | R            | R            |
| Surplus for the year   | 39 676 626   | 27 602 747   |
| Adjustments for:   |              |              |
| Impairment reversal on healthcare receivables                | 14 812       | 1 035 862    |
| Investment income  | (5 881 796)  | (4 900 773)  |
| Realised gains on disposal of available-for-sale-investments | (23 352 695) | (19 991 231) |
| Adjustment to the provision for outstanding claims           | 11 270 711   | 11 257 245   |
| Cash inflows from operations before working capital changes  | 21 727 657   | 2 932 126    |

## 16. PROFESSIONAL INDEMNITY AND FIDELITY GUARANTEE INSURANCE

In accordance with the rules, the Scheme has a fidelity policy underwritten by Hollard Insurance Company Ltd (policy number: SPL/SLFG/000001079) in the name of the Scheme which, at 31 December 2015, amounted to R20 million (2014: R20 million).

## 17. RELATED PARTY TRANSACTIONS

### Background information

| RELATED ENTITIES INCLUDE:                                  | RELATIONSHIP                 |
|--|------------------------------|
| Metropolitan Health Corporate (Pty) Ltd                    | Administrator                |
| Metropolitan Health Risk Management (Pty) Ltd              | Managed care provider        |
| Towers Watson (Pty) Ltd                                    | Actuaries                    |
| Imperial Group Limited and its subsidiaries and associates | Employer                     |
| Cedar Employee Benefits and Consultants (Pty) Ltd          | Principal Officer's Employer |
| Medi Call (Pty) Ltd  | Scheme management services   |
| Cedar Healthcare Consultants (Pty) Ltd                     | Healthcare consultants       |
| Board of Trustees  | Key management personnel     |
| Principal Officer  | Key management personnel     |

## 17. RELATED PARTY TRANSACTIONS (CONTINUED)

### Parties with significant influence over the Scheme

Metropolitan Health Corporate (Pty) Ltd has significant influence over the Imperial Group Medical Scheme, as Metropolitan Health Corporate (Pty) Ltd participates in Imperial Group Medical Scheme's financial and operating decisions, but does not control Imperial Group Medical Scheme. Metropolitan Health Corporate (Pty) Ltd provides administration services.

Managed care organisation, Metropolitan Health Risk Management (Pty) Ltd, a wholly owned subsidiary of Metropolitan Health Corporate (Pty) Ltd, has significant influence over the Scheme as a managed care provider, but does not control the Scheme.

Cedar Employee Benefits (Pty) Ltd, a 100% subsidiary of Imperial Group Ltd, provides Principal Officer's services to the Scheme.

Towers Watson (Pty) Ltd, has significant influence over the Scheme as the actuarial consultants but does not control the Scheme.

Cedar Healthcare Consultants (Pty) Ltd and Medi Call (Pty) Ltd are subsidiaries of Cedar Employee Benefits.

### 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 trustees are employed by Imperial Group Limited. The disclosure deals with part-time personnel that are compensated on a fee basis (Board of Trustees).

Close family members include close family members of the Board of Trustees and the Principal Officer.

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

|                               |  |
|-------------------------------|--|
| <b>Contributions received</b> | This constitutes the contributions paid by the related party as a member of the Scheme, in their individual capacity. All contributions were at the same terms as applicable to other members. |
| <b>Claims incurred</b>        | This constitutes amounts claimed by the related parties, in their individual capacity as members of the Scheme. All claims were paid out in terms of the rules of the Scheme.                  |
| <b>Contribution debtor</b>    | This constitutes outstanding contributions payable. The amounts are due immediately. No provisions for doubtful debts have been raised on these amounts.                                       |

## 17. RELATED PARTY TRANSACTIONS (CONTINUED)

### Transactions with entities that have significant influence over the Scheme:

|  | 2015       | 2014       |
|--|------------|------------|
|  | R          | R          |
| <b>Statement of comprehensive income</b>                 |            |            |
| Administration fees                                      | 12 170 553 | 11 210 544 |
| Managed care fees  | 6 512 931  | 6 048 110  |
| Actuarial fees   | 670 320    | 712 967    |
| Principal Officer's fees                                 | 232 013    | 218 880    |
| Scheme management services                               | 4 545 401  | 4 285 090  |
| Commission   | 1 340 344  | 1 283 889  |
| Travel and entertainment                                 | 4 896      | 3 649      |
| <b>Statement of financial position</b>                   |            |            |
| Actuarial fees due                                       | 75 012     | 52 554     |
| Commission due   | 111 876    | 105 324    |
| Scheme management service fees due                       | 379 341    | 357 441    |
| Managed care fees due                                    | 52 023     | 22 365     |
| Printing and stationery due                              | 22 178     | 8 021      |
| <b>Transactions with key management personnel:</b>       |            |            |
| <b>Statement of comprehensive income</b>                 |            |            |
| Trustees' and Principal Officer's contributions received | 477 991    | 404 682    |
| Trustees' and Principal Officer's claims incurred        | 380 400    | 276 307    |



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17. RELATED PARTY TRANSACTIONS (CONTINUED)

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

| TRANSACTION                | NATURE OF TRANSACTIONS AND TERMS AND CONDITIONS THEREOF   |
|----------------------------|---|
| ADMINISTRATION FEES        | The administration agreement is in terms of the Rules of the Scheme and in accordance with instructions given by the Trustees of the Scheme. The agreement shall continue for an initial period of three years from 1 January 2011, thereafter it is automatically renewed each year unless notification of termination is received. The Scheme has the right to terminate the agreement on six months notice. The outstanding balance bears no interest and is due within seven days of the month to which it relates. |
| MANAGED CARE FEES          | The managed care agreement is in terms of the Rules of the Scheme and in accordance with instructions given by the Trustees of the Scheme. The agreement shall continue for an initial period of three years from 1 January 2011, thereafter it is automatically renewed each year unless notification of termination is received. The Scheme has the right to terminate the agreement on six months notice. The outstanding balance bears no interest and is due within seven days of the month to which it relates.   |
| ACTUARIAL FEES             | The actuarial agreement is in accordance with instructions given by the Trustees of the Scheme. The agreement is automatically renewed each year unless notification of termination is received. Either party has the right to terminate the agreement on 120 days notice. The outstanding balance bears no interest and is due within 30 days.   |
| PRINCIPAL OFFICER'S FEES   | JJ van der Walt has been the Principal Officer of Imperial Group Medical Scheme since inception of the Scheme and an employee of the Imperial Group prior to that. In 2007, JJ van der Walt was employed as the MD of Cedar Employee Benefits and Consultants (Pty) Ltd a wholly owned subsidiary of the Imperial Group. The Principal Officer's fee has traditionally been paid to JJ van der Walt's employer.   |
| SCHEME MANAGEMENT SERVICES | The Medi Call agreement is in terms of the agreement between the Scheme and Medi Call and in accordance with instructions given by the Trustees of the Scheme. The agreement is automatically renewed each year unless notification of termination is received. The Scheme or the Scheme Manager may terminate the agreement by giving the other Party no less than 6 (six) calendar months written notice. The outstanding balance bears no interest and is due within 30 days.  |
| COMMISSION                 | The Cedar Healthcare Consultants agreement is in terms of the agreement between the Scheme and Cedar Healthcare Consultants and in accordance with instructions given by the Trustees of the Scheme. The agreement is automatically renewed each year unless notification of termination is received. To terminate the agreement, either party must give 3 (three) calendar months written notice. The outstanding balance bears no interest and is due within 30 days.   |

## 18. INSURANCE RISK MANAGEMENT

### **Risk management objectives, policies, processes and methods for mitigating 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. These risks relate 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 also has exposure to market risk through its insurance and investment activities.

The Board of Trustees looks at overall risk including insurance risk. The Board of Trustees is responsible for recommending any changes to the benefit options to ensure that the Scheme's exposure to insurance risk remain within the specified levels. Reference has also been made to the Medical Schemes Act when recommending changes.

The Board of Trustees determines whether or not the Scheme should enter into any risk transfer arrangements.

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, service provider profiling as well as the monitoring of emerging issues.

### **Risk management objectives, policies, processes and methods for mitigating insurance risk**

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. The Scheme analyses the distribution of claims per category of claim, average age of members per member group, average age per benefit option, actual number of members per benefit option and the geographic distribution of members.

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 using established statistical techniques.

The Scheme re-rates the Scheme benefits annually, to ensure that the necessary underwriting surplus or loss is maintained or minimised relative to the risk exposure. It is relatively easy to access the future claim payments since the large majority is lodged soon after the year-end before the four month expiration of claims period comes into effect.

The table on the following page 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 / benefits provided.

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18. INSURANCE RISK MANAGEMENT (CONTINUED)

2015

| AGE GROUPING (IN YEARS)   |     | GENERAL PRACTITIONERS | SPECIALISTS | DENTISTRY  | OPTOMETRY | MEDICINES  | HOSPITAL    | OTHER      | TOTAL       |
|---------------------------|-----|-----------------------|-------------|------------|-----------|------------|-------------|------------|-------------|
|                           |     | R                     | R           | R          | R         | R          | R           | R          | R           |
| < 26                      | Net | 725 078               | 1 967 123   | 340 669    | 208 430   | 914 162    | 3 592 914   | 463 174    | 8 211 550   |
| 26 – 35                   | Net | 5 167 868             | 7 889 983   | 2 726 583  | 1 706 257 | 10 518 587 | 28 347 716  | 5 330 506  | 71 687 500  |
| 36 – 50                   | Net | 7 413 167             | 26 396 282  | 5 946 734  | 3 405 606 | 20 981 700 | 39 544 139  | 8 146 145  | 111 833 773 |
| 51 – 65                   | Net | 2 586 366             | 15 408 826  | 2 361 169  | 1 656 866 | 13 990 545 | 20 857 965  | 5 257 188  | 62 118 925  |
| >65                       | Net | 654 617               | 6 681 614   | 633 931    | 362 592   | 5 489 353  | 8 901 299   | 1 657 979  | 24 381 385  |
| Total current year claims | Net | 16 547 096            | 68 343 828  | 12 009 086 | 7 339 751 | 51 894 347 | 101 244 033 | 20 854 992 | 278 233 133 |

2014

| AGE GROUPING (IN YEARS)   |     | GENERAL PRACTITIONERS | SPECIALISTS | DENTISTRY  | OPTOMETRY | MEDICINES  | HOSPITAL   | OTHER      | TOTAL       |
|---------------------------|-----|-----------------------|-------------|------------|-----------|------------|------------|------------|-------------|
|                           |     | R                     | R           | R          | R         | R          | R          | R          | R           |
| < 26                      | Net | 5 313 627             | 13 977 791  | 3 398 250  | 1 216 289 | 10 161 767 | 26 997 220 | 4 655 253  | 65 720 197  |
| 26 – 35                   | Net | 3 741 269             | 11 902 761  | 2 170 161  | 1 607 297 | 7 416 697  | 17 291 445 | 3 444 346  | 47 573 976  |
| 36 – 50                   | Net | 4 306 191             | 17 887 955  | 3 226 771  | 2 482 812 | 14 821 777 | 23 650 742 | 4 377 887  | 70 754 135  |
| 51 – 65                   | Net | 1 940 320             | 13 599 670  | 1 885 832  | 1 341 135 | 12 508 449 | 17 674 305 | 3 892 062  | 52 841 773  |
| >65                       | Net | 532 781               | 5 171 878   | 488 384    | 276 273   | 5 464 552  | 7 319 662  | 2 154 861  | 21 408 391  |
| Total current year claims | Net | 15 834 188            | 62 540 055  | 11 169 398 | 6 923 806 | 50 373 242 | 92 933 374 | 18 524 409 | 258 298 472 |

## 18. INSURANCE RISK MANAGEMENT (CONTINUED)

General practitioner benefits cover the cost of all visits by members to general practitioners and of the procedures performed by them.

Specialist benefits cover the cost of all visits by members to specialists and in and out-of-hospital procedures performed by specialists. Specialist benefits also include radiology and pathology benefits provided to members.

Dentistry benefits cover the cost of all visits by members to dental practitioners and the procedures performed by them, up to a prescribed annual limit per member.

Optometry benefits cover the cost of all visits by members to optometrists, the cost of prescribed glasses and contact lenses and the cost of procedures performed by optometrists, up to a prescribed annual limit per member.

Medicine benefits cover the cost of all medicines prescribed to members.

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

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 this reduces the variability of the outcome.

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

All the contracts are annual in nature and the Scheme has the right to change the terms and conditions of the contract 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.

## 19. CAPITAL MANAGEMENT

The Scheme's objective is to manage its capital in such a way that the annual contribution increase to members is as low as possible, and if possible in line with the participating employer's salary increases. The Scheme therefore decided to use some of its investment income to fund deficits that might occur as a result of operational losses.

## 19. CAPITAL MANAGEMENT (CONTINUED)

Capital adequacy risk is the risk that there may be insufficient reserves to provide for adverse variations on actual and future experiences.

The Scheme monitors capital using a solvency ratio, which is accumulated funds divided by gross contributions.

The Medical Schemes Act requires the Scheme to maintain a solvency ratio of 25%. The Scheme's solvency ratio as at 31 December 2015 was 85.3% (2014: 80.6%), which is well above this required minimum.

This measure of capital is consistent with the prior year, and there have been no changes in the Scheme's objectives, policies and procedures for managing capital from 31 December 2014 to 31 December 2015.

## 20. FINANCIAL RISK MANAGEMENT

The Scheme's activities expose it to a variety of financial risks, including the effects of changes in equity market prices, foreign currency exchange rates and interest rates. 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 that the Scheme holds to meet its obligations to its members. The most important components of these financial risks are market risk and credit risk.



## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

|                                     | 2015        | 2014        |
|-------------------------------------|-------------|-------------|
|                                     | R           | R           |
| Investments                         |             |             |
| Available-for-sale financial assets | 196 672 731 | 199 199 515 |
| Cash and cash equivalents           | 104 631 953 | 91 757 068  |
| Trade and other receivables         | 14 122 728  | 11 383 967  |
| Loans and receivables               | 208 638     | 138 618     |
| Insurance receivables               | 13 914 090  | 11 245 349  |
| Trade and other payables            | 1 555 706   | 1 274 940   |
| Provisions and payables             | 1 438 654   | 1 186 710   |
| Insurance payables                  | 117 052     | 88 230      |

#### Financial risk management strategy and policy

Risk management and investment decisions are made under the guidance and policies approved by the Board of Trustees. The Trustees identify, evaluate and economically hedges (where appropriate) financial risks associated with the Scheme's investment portfolio. They provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing excess liquidity.

The investment objectives are to maximise the return on its investments on a long term basis at minimal risk. The investment strategy takes into consideration both constraints imposed by legislation and those imposed by the Board of Trustees.

#### Market risk

##### *Interest rate risk*

The Scheme's investment policy is to hold the majority of investments in interest bearing instruments. The majority of the Scheme's investments are exposed to changes in market interest rates.

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Interest rate risk - sensitivity analysis

#### Sensitivity of members' funds due to changes in the interest rate

The impact has been evaluated by looking at the change to surplus and total members' funds based on a decrease of 1 % or decrease of 5 % in the market interest rates applicable at 31 December, for each class of financial instrument with all other variables remaining constant as follows:

#### Sensitivity analysis table at 31 December

|   | Actual      | Interest rate decreases by 1 % | Interest rate decreases by 5 % |
|---|-------------|--------------------------------|--------------------------------|
|   | R           | R                              | R                              |
| 2015  |             |                                |                                |
| Change in interest bearing available-for-sale instruments | 86 028 364  | (860 284)                      | (4 301 418)                    |
| Change in cash and cash equivalents                       | 104 631 953 | (1 046 320)                    | (5 231 598)                    |

|   | Actual     | Interest rate decreases by 1 % | Interest rate decreases by 5 % |
|---|------------|--------------------------------|--------------------------------|
|   | R          | R                              | R                              |
| 2014  |            |                                |                                |
| Change in interest bearing available-for-sale instruments | 80 985 198 | (809 852)                      | (4 049 260)                    |
| Change in cash and cash equivalents                       | 91 757 068 | (917 571)                      | (4 587 853)                    |

#### The above sensitivity analysis is based on the following assumptions:

- » changes in the market interest rates affect the interest income or expense of variable interest financial instruments; and
- » the financial assets and liabilities at 31 December remain until maturity or settlement without any action by the Scheme to alter the resulting interest rate exposure.

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Equity price risk management

The Scheme is exposed to equity price risks resulting from the equity investments in the underlying policies and portfolios it invests in. The equity instruments are indirectly held by the Scheme in terms of its investment strategy and restrictions exerted by the Medical Schemes Act.

No specific concentration of risk exists for the equity price risk as the investments are diversified to minimise the risk to the Scheme.

The following table details the Scheme's sensitivity to a 1 % or 5 % decrease/increase in the fair value of the instruments. The sensitivity analysis includes equity backed available-for-sale investments and illustrates the impact on the available-for-sale reserve, surplus and total members' funds at year end.

### Equity price risk sensitivity analysis

|  | Actual      | JSE ALSI decreases by 1 % | JSE ALSI decreases by 5 % |
|--|-------------|---------------------------|---------------------------|
| 2015   | R           | R                         | R                         |
| Change in equity backed available for sale instruments | 110 644 367 | (716 322)                 | (3 578 693)               |
| Surplus  | 39 676 626  | 39 676 626                | 39 676 626                |
| Total members' funds                                   | 300 983 910 | 300 267 588               | 297 405 217               |

|  | Actual      | JSE ALSI decreases by 1 % | JSE ALSI decreases by 5 % |
|--|-------------|---------------------------|---------------------------|
| 2014   | R           | R                         | R                         |
| Change in equity backed available for sale instruments | 115 687 533 | (839 329)                 | (4 217 655)               |
| Surplus  | 40 436 328  | 40 436 328                | 40 436 328                |
| Total members' funds                                   | 301 743 612 | 300 904 283               | 297 525 957               |

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

The equity price sensitivity analysis is based on the following assumptions:

The sensitivity analysis for equity instruments is based on the assumption that all the shares per the Johannesburg Stock Exchange All Share index (JSE ALSI) decrease/increase by 1 % or 5 %.

### *Currency risk*

The Scheme operates in South Africa and therefore its cash flows are denominated in South African Rand (ZAR).

Three insurance policies are held. The market value of these policies is affected by currency risk based on the foreign investments held in the policy. No direct foreign assets are held by the Scheme as the policies are local. Foreign assets are held in the name of the insurer.

|                                | Local       | Total       |
|--------------------------------|-------------|-------------|
|                                | R           | R           |
| <b>As at 31 December 2015</b>  |             |             |
| Available-for-sale investments | 196 672 731 | 196 672 731 |
| Cash and Cash equivalents      | 104 631 953 | 104 631 953 |
| Total                          | 301 304 684 | 301 304 684 |
| <b>As at 31 December 2014</b>  |             |             |
| Available-for-sale investments | 186 029 470 | 172 859 425 |
| Cash and Cash equivalents      | 91 757 068  | 85 105 614  |
| Total                          | 277 786 538 | 257 965 039 |

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Currency risk - sensitivity analysis

#### Sensitivity of members' funds due to changes in foreign currency exchange rates

The impact has been evaluated by considering the impact to the surplus and total members' funds if the Rand appreciates by 1 % or 5 % at 31 December, for each class of financial instrument with all other variables remaining constant as follows:

#### Sensitivity analysis table at 31 December

|  | Actual      | Rand appreciates by 1 % | Rand appreciates by 5 % Rand |
|--|-------------|-------------------------|------------------------------|
| 2015                                     | R           | R                       | R                            |
| Change in available-for-sale investments | 196 672 731 | -                       | -                            |
| Change in cash and cash equivalents      | 104 631 953 | -                       | -                            |
| Total members' funds                     | 300 983 910 | 300 983 910             | 300 983 910                  |
| Surplus                                  | 39 676 626  | 39 676 626              | 39 676 626                   |

|  | Actual      | Rand appreciates by 1 % | Rand appreciates by 5 % Rand |
|--|-------------|-------------------------|------------------------------|
| 2014                                     | R           | R                       | R                            |
| Change in available-for-sale investments | 199 199 515 | -                       | -                            |
| Change in cash and Cash equivalents      | 91 757 068  | -                       | -                            |
| Total members' funds                     | 277 656 620 | 277 656 620             | 277 656 620                  |
| Surplus                                  | 27 602 747  | 27 602 747              | 27 602 747                   |

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Credit risk

The Scheme's principal financial assets exposed to credit risk are cash and cash equivalents, trade and other receivables and available-for-sale investments. The amounts presented in the statement of financial position are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience is evidence of a reduction in the recoverability of the cash flows. Cash transactions are limited to high credit quality financial institutions.

The Scheme manages the credit risk, specifically relating to trade and other receivables, by ensuring it applies a strict credit policy.

#### *Cash and cash equivalents and available-for-sale investments*

The credit risk on liquid funds is limited because the counter parties are financial institutions with high credit ratings.

| CREDIT RISK EXPOSURE             | AMOUNT     | COUNTER PARTY    | CREDIT RATING |
|----------------------------------|------------|------------------|---------------|
| <b>2015</b>                      | <b>R</b>   |                  |               |
| <i>Cash and cash equivalents</i> | 11 281 360 | ABSA             | BBB           |
|                                  | 1 838 437  | African Bank     | Not available |
|                                  | 683 013    | Citibank         | A             |
|                                  | 16 805 812 | FirstRand        | BBB-          |
|                                  | 4 623 231  | Investec         | BBB-          |
|                                  | 24 266 395 | Nedbank          | BBB-          |
|                                  | 43 230 693 | Standard Bank    | BBB-          |
|                                  | 44 117     | Deutsche Bank    | A-            |
|                                  | 24 325     | HSBC             | AA-           |
|                                  | 344        | Standard charter | BBB-          |
|                                  | 1 834 226  | Societe General  | A             |

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Credit risk (continued)

*Cash and cash equivalents and available-for-sale investments (continued)*

| CREDIT RISK EXPOSURE             | AMOUNT     | COUNTER PARTY   | CREDIT RATING |
|----------------------------------|------------|-----------------|---------------|
| 2014                             | R          |                 |               |
| <i>Cash and cash equivalents</i> | 3 924 028  | ABSA            | AAA           |
|                                  | 1 944 700  | African Bank    | A             |
|                                  | 396 669    | Citibank        | A             |
|                                  | 11 082 507 | FirstRand       | AA            |
|                                  | 5 337 609  | Investec        | A+            |
|                                  | 35 963 756 | Nedbank         | AA            |
|                                  | 26 669 868 | Standard Bank   | AA            |
|                                  | 2 181 677  | HSBC            | AA-           |
|                                  | 487 902    | Deutsche Bank   | A+            |
|                                  | 3 768 351  | Societe General | A             |

The credit risk exposure on trade and other receivables has been set out on page 38 of these financial statements.

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet obligations as they fall due in the ordinary course of business. The availability of funding through liquid holding cash positions with various financial institutions ensures that the Scheme has the ability to fund its day-to-day operations.

The table on the next page summarises the Scheme's maturity analysis of insurance and other payables as well as insurance and other receivables and the expected maturity analysis for the outstanding claims provision.

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

The liquidity risk analysis on the next page is based on the following assumptions:

- » The outstanding claims provision is based on an estimate of the payments to be made within the first four months after becoming due, as per the Scheme rules, or unless otherwise arranged; and
- » The maturity of trade and other payables is based on the pre-defined regulatory contractual terms.

### Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable.

- » **Level 1** fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- » **Level 2** fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- » **Level 3** fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable market data).



## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value measurements recognised in the statement of financial position (continued)

|   | Level 1<br>R | Level 2<br>R | Level 3<br>R |
|---|--------------|--------------|--------------|
| <b>2015</b>                                 |              |              |              |
| <b>Available-for-sale financial assets</b>  |              |              |              |
| Allan Gray (insurance policy) (recurring)   |              | -            |              |
| Sygnia (insurance policy) (recurring)       | -            | 196 672 731  | -            |
| <b>Total available-for-sale investments</b> | -            | 196 672 731  | -            |

|   | Level 1<br>R | Level 2<br>R | Level 3<br>R |
|---|--------------|--------------|--------------|
| <b>2014</b>                                 |              |              |              |
| <b>Available-for-sale financial assets</b>  |              |              |              |
| Allan Gray (insurance policy) (recurring)   |              | 20 642 077   |              |
| Sygnia (insurance policy) (recurring)       | -            | 165 387 393  | -            |
| <b>Total available-for-sale investments</b> | -            | 186 029 470  | -            |

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value measurements recognised in the statement of financial position (continued)

|                                  | UP TO<br>1 MONTH   | BETWEEN<br>1 AND 3<br>MONTHS | MORE THAN<br>3 MONTHS | TOTAL              |
|----------------------------------|--------------------|------------------------------|-----------------------|--------------------|
|                                  | R                  | R                            | R                     | R                  |
| <b>2015</b>                      |                    |                              |                       |                    |
| <b>LIABILITIES</b>               |                    |                              |                       |                    |
| <b>Current liabilities</b>       |                    |                              |                       |                    |
| Outstanding claims provision     | 9 871 316          | 2 938 945                    | 77 535                | 12 887 796         |
| Trade and other payables         | 1 555 706          | -                            | -                     | 1 555 706          |
| <b>Total current liabilities</b> | <b>11 427 022</b>  | <b>2 938 945</b>             | <b>77 535</b>         | <b>14 443 502</b>  |
| <b>ASSETS</b>                    |                    |                              |                       |                    |
| <b>Current assets</b>            |                    |                              |                       |                    |
| Cash and cash equivalents        | 104 631 953        | -                            | -                     | 104 631 953        |
| Trade and other receivables      | 13 975 407         | 35 101                       | 112 220               | 14 122 728         |
| <b>Total current assets</b>      | <b>118 607 360</b> | <b>35 101</b>                | <b>112 220</b>        | <b>118 754 681</b> |
|                                  | 107 180 338        | (2 903 844)                  | 34 685                | 104 311 179        |

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value measurements recognised in the statement of financial position (continued)

|                                  | UP TO<br>1 MONTH   | BETWEEN<br>1 AND 3<br>MONTHS | MORE THAN<br>3 MONTHS | TOTAL              |
|----------------------------------|--------------------|------------------------------|-----------------------|--------------------|
|                                  | R                  | R                            | R                     | R                  |
| <b>2014</b>                      |                    |                              |                       |                    |
| <b>LIABILITIES</b>               |                    |                              |                       |                    |
| <b>Current liabilities</b>       |                    |                              |                       |                    |
| Outstanding claims provision     | 6 165 992          | 1 943 063                    | 2 129 890             | 10 238 945         |
| Trade and other payables         | 1 274 940          | -                            | -                     | 1 274 940          |
| <b>Total current liabilities</b> | <b>7 440 932</b>   | <b>1 943 063</b>             | <b>2 129 890</b>      | <b>11 513 885</b>  |
| <b>ASSETS</b>                    |                    |                              |                       |                    |
| <b>Current assets</b>            |                    |                              |                       |                    |
| Cash and cash equivalents        | 91 757 068         | -                            | -                     | 91 757 068         |
| Trade and other receivables      | 11 087 555         | 296 412                      | -                     | 11 383 967         |
| <b>Total current assets</b>      | <b>102 844 623</b> | <b>296 412</b>               | <b>-</b>              | <b>103 141 035</b> |
|                                  | 95 403 691         | (1 646 651)                  | (2 129 890)           | 91 627 150         |

Notes to the Annual Financial Statements  
For the year ended 31 December 2015

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

*Credit risk - trade and other receivables*

|                             | FULLY<br>PERFORMING | PAST DUE | IMPAIRMENT | TOTAL       |
|-----------------------------|---------------------|----------|------------|-------------|
|                             | R                   | R        | R          | R           |
| <b>2015</b>                 |                     |          |            |             |
| Insurance receivables       | 13 851 437          | 125 858  | (63 206)   | 13 914 089  |
| - Contributions outstanding | 13 818 434          | 35 586   | (9 687)    | 13 844 333  |
| - Recoveries from members   | 472                 | 8 428    | (5 510)    | 3 390       |
| - Supplier overpayments     | 32 531              | 81 844   | (48 009)   | 66 366      |
| Other receivables           | 188 638             | -        | -          | 188 638     |
| Cash and cash equivalents   | 104 631 953         | -        | -          | 104 631 953 |
|                             | 118 672 028         | 125 858  | (63 206)   | 118 734 680 |

|                             |             |         |          |             |
|-----------------------------|-------------|---------|----------|-------------|
| <b>2014</b>                 |             |         |          |             |
| Insurance receivables       | 10 948 937  | 360 115 | (63 703) | 11 245 349  |
| - Contributions outstanding | 10 946 383  | 228 709 | (6 797)  | 11 168 295  |
| - Recoveries from members   | 2 554       | 24 061  | (7 174)  | 19 441      |
| - Supplier overpayments     | -           | 107 345 | (49 732) | 57 614      |
| Other receivables           | 138 618     | -       | -        | 138 618     |
| Cash and cash equivalents   | 91 757 068  | -       | -        | 91 757 068  |
|                             | 102 844 623 | 360 115 | (63 703) | 103 141 035 |

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

### *Age analysis of past due amounts*

|                             | 30 days | 60 days | 90 days + | Total   |
|-----------------------------|---------|---------|-----------|---------|
|                             | R       | R       | R         | R       |
| <b>2015</b>                 |         |         |           |         |
| Insurance receivables       | 39 760  | 18 637  | 67 461    | 125 858 |
| - Contributions outstanding | 17 707  | 7 758   | 10 121    | 35 586  |
| - Recoveries from members   | 2 221   | 696     | 5 511     | 8 428   |
| - Supplier overpayments     | 19 832  | 10 183  | 51 829    | 81 844  |
| Other receivables           | -       | -       | -         | -       |
|                             | 39 760  | 18 637  | 67 461    | 125 858 |

|                             |         |        |         |         |
|-----------------------------|---------|--------|---------|---------|
| <b>2014</b>                 |         |        |         |         |
| Insurance receivables       | 214 972 | 40 955 | 104 188 | 360 115 |
| - Contributions outstanding | 195 605 | 19 207 | 13 897  | 228 709 |
| - Recoveries from members   | 6 404   | 5 267  | 12 390  | 24 061  |
| - Supplier overpayments     | 12 963  | 16 481 | 77 901  | 107 345 |
| Other receivables           | -       | -      | -       | -       |
|                             | 214 972 | 40 955 | 104 188 | 360 115 |

## 21. TAXATION

The Scheme is exempt from income tax in terms of section 10(1)(d) of the Income Tax Act.

## 22. CRITICAL ACCOUNTING JUDGEMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Scheme's accounting policies, the trustees have made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

1. Provision for outstanding claims is made based on various factors as discussed in Note 5.
2. The Scheme's financial instruments are measured at fair value as indicated in Note 1 and 21 and it is usually possible to determine their fair values within a reasonable range of estimates.
3. Provision is made for impairment of debt according to historical trends in the recoverability based on the ageing. The following amounts are provided for:
  - » Arrear contributions older than 120 days;
  - » Any amounts due from pensioners, resigned members and deceased members; and
  - » Supplier debt over 120 days.

These estimates are subjective in nature and involve uncertainties and matters of significant judgement (e.g. interest rates, volatility, estimated cash flows etc.) and therefore cannot be determined with precision.

## 23. COMMITMENTS

There were no commitments for capital expenditure as at 31 December 2015 (2014 : nil).

## 24. CONTINGENCIES

The ex-spouse of an ex-member lodged a civil claim against the Scheme for claims the Scheme reversed due to the date of service being after the date of termination of the membership to the value of approximately R24 000, which may be a potential liability contingent on the outcome of litigations at 31 December 2015 (2014: R24 000).

## 25. NON-COMPLIANCE MATTERS

The following areas of non-compliance with the Act were identified during the year:

### **Contravention of section 26(7)**

#### *Nature and impact*

In terms of section 26(7) of the Act, contributions must be paid directly to a medical scheme by no later than three business days after payment becomes due. Amounts were received after the prescribed three business days of the month following the last business day in which it became due, as stipulated in the rules.

#### *Causes for the failure*

Contributions were identified that were received more than three business days after payment became due and relates to Employer Groups 4000 and 4144, which is in contravention of both the Scheme Rules and the Act since the contributions were paid late on a few occasions. A few instances on the debit order runs were also picked up where a member did not have sufficient funds in his/her bank account or where the member closed his/her bank account, resulting in rejected debit orders. The Scheme would then need to follow up on these amounts to arrange payment.

#### *Corrective action*

The administrator took remedial action through Medi Call (Pty) Ltd against defaulting Employer Group and members in accordance with the approved debt mandate provided by the Scheme.

### **Contravention of Section 35(8)(a) and (c)**

#### *Nature and impact*

In terms of section 35(8)(a) and (c) of the Act, a Scheme shall not invest any of its assets in an employer who participates in the medical scheme or any administrator associated with the medical scheme.

#### *Causes for the failure*

The Scheme holds an indirect investment in Imperial Holdings Limited through its linked insurance policy investment with Sygnia Life Limited.

The Scheme also holds an indirect investment in MMI Holdings Limited (holding company of the administrator), through its linked insurance policy investment with Sygnia Life Limited.

## 25. NON-COMPLIANCE MATTERS (CONTINUED)

### Contravention of Section 35(8)(a) and (c) (continued)

#### *Corrective action*

The non-compliance is as a result of the Scheme's assets being invested in a linked policy of insurance. The Scheme does not dictate to the asset managers which investment holding to purchase. These investments are part of the total insured portfolio and selling this non-compliant investment would result in the complete sale of the entire portfolio.

The Scheme reapplied for an exemption from Section 35(8)(a) and (c) which was granted on 6 October 2015. This exemption is valid until 6 October 2016.

### Contravention of Regulation 8

#### *Nature and impact*

Regulation 8 (1) of the Medical Schemes Act no 131 of 1998 states that subject to the provisions of this regulation, any benefit option that is offered by a medical scheme must pay in full, without co-payment or the use of deductibles, the diagnosis, treatment and care costs of the Prescribed Minimum Benefit (PMB) conditions. During the review of the PMB's, MMI Group Internal Audit noted two instances where PMB claim lines were not settled in full.

#### *Causes for the failure*

The administration system is programmed to settle all potential PMB claims per Scheme directive. However, we acknowledge that identifying a claim as PMB is a complex issue given the lack of a workable industry (ICD10) coding system.

#### *Corrective action*

Claims Management will continue to send the identified exception reports to Fund Management, who will alert the Scheme of potential PMB claims. Thereafter, Fund Management will execute the instructions as mandated by the Scheme.

### Contravention of Regulation 30

#### *Nature and impact*

Explanatory note 2 to Annexure B read in conjunction with Regulation 30 of the Medical Schemes Act 131 of 1998, as clarified in Circular 23 of 2012, requires that the sum of deposits in categories 1(a)(i) and 1(a)(ii) exceed 20% of assets in terms of Regulation 30. At year end, the Imperial Group Medical Scheme did not meet this requirement.



## 25. NON-COMPLIANCE MATTERS (CONTINUED)

### Contravention of Regulation 30 (continued)

#### *Causes for the failure*

The Scheme invests in the Investec Stable Money Market Fund through a linked policy of insurance, in order to optimize return on its cash reserves. The bond exposure from this Fund is excluded from categories 1(a)(i) and 1(a)(ii) resulting in the non-compliance.

#### *Corrective action*

The Scheme invests in the Investec Stable Money Market Fund through a linked policy of insurance, in order to optimize return on its cash reserves. The bond exposure from this Fund is excluded from categories 1(a)(i) and 1(a)(ii) resulting in the non-compliance.

## 26. EVENTS AFTER REPORTING DATE

There have been no events that have occurred subsequent to the end of the accounting period that affect the annual financial statements and that the Trustees consider should be brought to the attention of the members of the Scheme.



**NOTE:**

1. Please return the completed nomination form and an abbreviated CV\* of the nominated person to:  
 The Principal Officer  
 Imperial Group Medical Scheme  
 PO Box 2140  
 Houghton  
 2041

or fax it to 0866 738 093 by no later than Wednesday, 6 July 2016.

2. Omission of any of the above-mentioned information would invalidate this nomination form.
3. Please provide a telephone number and e-mail address for the nominee to facilitate the provision of relevant documentation:

Telephone number of nominee:

E-mail address:

\* **The abbreviated CV should contain the following information:**

- » contact details;
- » current position and company;
- » any previous experience with regard to medical schemes; and
- » qualifications.

**NOTE:** The closing date for Trustee nominations is at the close of business on 6 July 2016. No nominations after this date will be accepted.

All nominations **must** be sent to the office of the Principal Officer, as per the Scheme rules.

# *PROXY FORM*

## *IMPERIAL GROUP MEDICAL SCHEME*

I, \_\_\_\_\_,

being a member of Imperial Group Medical Scheme, do hereby appoint

\_\_\_\_\_,

who is a member of this Scheme or, failing him/her, the Chairperson of the meeting, as my proxy to attend and vote on my behalf at the Annual General Meeting convened for Friday, 15 July 2016.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2016.

Signature of member: \_\_\_\_\_

Membership number of member: \_\_\_\_\_

Signature of proxy: \_\_\_\_\_

Membership number of proxy: \_\_\_\_\_

**Please return this proxy to:**

The Principal Officer  
Imperial Group Medical Scheme  
PO Box 2140  
Houghton  
2041

or fax it to: **086 673 8093**

**To reach the Principal Officer by no later than 48 hours before the start of the meeting**







