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Government Employees
Medical Scheme



annual report

2015

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Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

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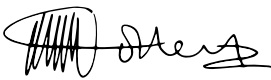
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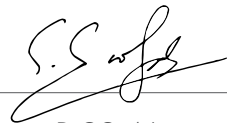
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Mr ZC Rikhotso
Chairperson



Ms N Ntsinde
Deputy Chairperson



Dr G Goolab
Principal Officer

26 April 2016



Annual Financial Statements for the year ended 31 December 2015

Independent Auditor's Report

To the Members of the Government Employees Medical Scheme

Report on the Financial Statements

We have audited the financial statements of the Government Employees Medical Scheme (the Scheme) as set out on pages 5-68, which comprise the statement of financial position at 31 December 2015, and the statements of comprehensive income, changes in funds and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory notes.

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 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.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Government Employees 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.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Independent Auditor's Report (continued)

To the Members of the Government Employees Medical Scheme (continued)

Report on Other Legal and Regulatory Requirements

Non-compliance with Medical Schemes Act of South Africa

As required by the Council for Medical Schemes, we report the following material instances of non-compliance with the requirements of the Medical Schemes Act of South Africa as amended that have come to our attention during the course of our audit:

1. Non-compliance with S26(7) - Late paying employer groups
2. Non-compliance with S33(2) - Benefit option making losses
3. Non-compliance with Regulation 29(4) - Minimum accumulated funds
4. Non-compliance with S59(2) - Claims settled after 30 days
5. Non-compliance with Regulation 30 - Breach of Annexure B limit
6. Non-compliance with S35(8)(c) - Investment in administrator

We draw attention to note 32 of the annual financial statements which provide details regarding the non-compliance matters identified above.

KPMG Inc.

Registered Auditor



Per Z Beseti
Chartered Accountant (SA) KPMG Crescent
Registered Auditor 85 Empire Road
Director Parktown
20 May 2016 2193



Annual Financial Statements for the year ended 31 December 2015
Statement of Financial Position

	Notes	2015 R '000	2014 R '000
ASSETS			
Non-current assets			
Equipment	3	7,846	6,094
Intangible assets	4	16,950	269
Financial assets at fair value through profit or loss	5	359,403	-
Total non-current assets		384,199	6,363
Current assets			
Financial assets at fair value through profit or loss	5	87,673	-
Trade and other receivables	6	318,107	173,452
Government grant	12	-	254,164
Cash and cash equivalents		3,864,422	3,783,491
Scheme cash invested	7	3,405,171	3,431,358
Personal medical savings account trust monies invested	8	459,251	352,133
Total current assets		4,270,202	4,211,107
Total assets		4,654,401	4,217,470
FUNDS AND LIABILITIES			
Members' funds			
Accumulated funds		2,660,725	2,655,411
Current liabilities			
Personal medical savings account trust monies	9	493,715	380,901
Trade and other payables	10	498,824	233,973
Outstanding risk claims provision	11	1,000,800	947,110
Lease escalation reserve		337	75
Total current liabilities		1,993,676	1,562,059
Total liabilities		1,993,676	1,562,059
Total funds and liabilities		4,654,401	4,217,470

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Statement of Comprehensive Income

	Notes	2015 R '000	2014 R '000
Risk contribution income	14	27,570,368	26,030,234
Relevant healthcare expenditure	15	(26,379,576)	(25,223,084)
Risk claims incurred	16	(25,740,758)	(24,601,718)
Managed care services		(638,818)	(621,366)
Gross healthcare result		1,190,792	807,150
Administration expenditure	17	(1,227,836)	(1,108,606)
Marketing services		(115,684)	(110,622)
Impairment losses on healthcare receivables	19	(52,382)	(53,973)
Net healthcare result		(205,110)	(466,050)
Investment income	20	224,112	193,037
Dividends received		317	-
Interest received on financial assets at fair value through profit or loss		4,709	-
Net realised gain on financial assets at fair value through profit or loss		220	-
Net unrealised losses on financial assets at fair value through profit or loss		(3,865)	-
Interest received on Scheme cash invested		198,190	175,135
Personal medical savings account trust monies invested		24,541	17,902
Other income		11,055	71,625
Sundry income		5,219	7,921
Net interest adjustment of government grant		5,836	11,633
Government grant income	21	-	52,071
Other expenses		(24,743)	(17,902)
Investment management fees		(202)	-
Interest allocated to members' personal medical savings accounts trust monies		(24,541)	(17,902)
Surplus/(deficit) and total comprehensive surplus/ (deficit) for the year		5,314	(219,290)



Annual Financial Statements for the year ended 31 December 2015

Statement of Changes in Funds

	Accumulated funds R '000	Total members' funds R '000
Balance at 1 January 2014	2,874,701	2,874,701
Deficit for the year and total comprehensive deficit	(219,290)	(219,290)
Balance at 1 January 2015	2,655,411	2,655,411
Surplus for the year and total comprehensive surplus	5,314	5,314
Balance at 31 December 2015	2,660,725	2,660,725



Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Statement of Cash Flows

	Notes	2015 R '000	2014 R '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from members		28,030,211	26,537,701
Cash receipts from government		260,000	-
Cash paid to suppliers, members and employees		(27,937,346)	(26,785,346)
Cash generated from/(utilised by) operations	24	352,865	(247,645)
Net cash flows from/(used in) operating activities		352,865	(247,645)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment	3	(4,555)	(4,068)
Purchase of other intangible assets	4	(16,950)	-
Purchase of financial assets at fair value through profit or loss	5	(450,000)	-
Investment income	20	224,112	193,037
Interest received on Scheme cash invested		198,190	175,135
Income earned on financial assets at fair value through profit or loss		1,381	-
Personal medical savings account trust monies invested		24,541	17,902
Interest allocated to members' personal medical savings account trust monies		(24,541)	(17,902)
Net cash (outflow)/inflow from investing activities		(271,934)	171,067
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		80,931	(76,578)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		3,783,491	3,860,069
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		3,864,422	3,783,491
Scheme cash invested	7	3,405,171	3,431,358
Personal medical savings account trust monies invested	8	459,251	352,133



Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements

1. PRINCIPLE ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of the financial statements are set out below. The policies are consistent with those of the prior year, however the financial instrument policy has been updated to reflect the inclusion for the policy relating to financial assets at fair value through profit or loss. Refer to note 2 for the new standards and interpretations.

1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act no. 131 of 1998, as amended (the Act). In addition the Statement of Comprehensive Income is prepared in accordance with Circulars 41 of 2012 and 56 of 2015 of the Council for Medical Schemes that sets out their interpretation of IFRS as it relates to the Statement of Comprehensive Income for Medical Schemes in South Africa.

1.2 Basis of preparation

The financial statements are prepared on the going concern principle and using the historical cost basis, except as otherwise stated in the accounting policies below. Information contained in the financial statements is presented in South African Rand, which is the Scheme's functional currency. All financial information presented in Rand has been rounded to the nearest thousands, except where otherwise indicated.

1.3 Equipment

Equipment is measured at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged on the straight line basis over the estimated useful lives of assets after taking into consideration an asset's residual value.

The following useful lives are used in the calculation of depreciation:

Item	Average useful life
Furniture and fittings	5 years
Motor vehicles	5 years
Office equipment	5 years
Computer equipment and software	3 years
Leasehold improvements	Over the unexpired period of the applicable lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

The residual value, depreciation method and the estimated useful life of each asset is reviewed at the end of each reporting period and adjusted where appropriate. The effects of any changes in estimates are accounted for on a prospective basis.

The Scheme capitalises leasehold improvements, as specified in the lease contracts, and these improvements are depreciated.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

Repairs and maintenance, which neither materially add to the value of assets nor appreciably prolong their useful lives, are recognised in profit or loss. Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Scheme. Costs directly attributed to the acquisition, development and installation of software are capitalised.

An asset is derecognised on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is the difference between the proceeds received and the carrying amount at the date of disposal and the gain or loss is recognised in profit or loss.

1.4 Financial instruments

Financial assets and financial liabilities are recognised on the Scheme's Statement of Financial Position when the Scheme becomes a party to the contractual provisions of the instrument. The Scheme derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which all the risks and rewards of ownership of the financial asset are transferred substantially, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Scheme is recognised as a separate asset or liability.

The Scheme classifies its financial assets into the

following categories: financial assets at fair value through profit or loss and loans and receivables. The Scheme classifies its financial liabilities at amortised cost. The Scheme derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Measurement

Financial instruments are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. Transaction costs on financial assets at fair value through profit or loss are recognised in profit or loss. Subsequent to initial recognition, these instruments are measured as set out below:

Financial assets at fair value through profit or loss

The Scheme classifies a financial asset at fair value through profit or loss when any of the following conditions are met:

- The asset is acquired principally for the purpose of selling in the near term.
- It is part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent pattern of short-term profit.
- Upon initial recognition the Scheme designated the asset as at fair value through profit or loss.

A group of financial assets is designated as at fair value through profit or loss if it is managed and its performance is evaluated on a fair value basis, in



Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

accordance with the Scheme's documented risk management strategy, and information about the group of assets is provided internally on that basis to the Scheme's key management personnel.

The fair value of the financial instruments traded in an active market is determined by using quoted market prices or dealer quotes. The fair value of financial instruments not traded in an active market is determined by using valuation techniques that maximise the use of observable market data and rely as little as possible on entity specific estimates.

Gains or losses arising from subsequent changes in fair value, including any interest or dividend income, are recognised under Investment Income in the Statement of Comprehensive Income within the period in which they arise.

Loans and receivables

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, taking into account accumulated impairment losses.

Interest income is recognised by applying the effective interest method, except for short term receivables when the recognition of interest would be considered immaterial. In line with the Scheme Rules, no interest is charged on overdue receivable balances.

Cash and cash equivalents

Cash and cash equivalents comprise fixed deposits held for a period of up to 12 months, deposits held on call with banks, cash on hand and other short term liquid investments. These fixed deposits are readily convertible, within a 3 month period, to a known amount of cash and are subject to insignificant risk

of change in value. Cash and cash equivalents are classified as loans and receivables.

Financial liabilities measured at amortised cost

Financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Offset

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Scheme has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. No offsetting is currently applied in the financial statements.

1.5 Personal Medical Savings Accounts: Trust monies managed by the Scheme on behalf of its members

The personal medical savings account, which is managed by the Scheme on behalf of its members, represents savings contributions (which are a deposit component of the insurance contracts), and accrued interest thereon, net of any savings claims paid on behalf of members in terms of the Scheme's registered rules and bank charges.

The deposit component of the insurance contracts has been unbundled, since the Scheme can measure the deposit component separately. The deposit component is recognised in accordance with IAS 39 and is initially measured at fair value and subsequently at amortised cost using the effective interest method. The insurance component is recognised in accordance with IFRS 4.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

1.5 Personal Medical Savings Accounts: Trust monies managed by the Scheme on behalf of its members (continued)

Unspent savings at year end are carried forward to meet future expenses for which the members are responsible. In terms of the Medical Schemes Act 131 of 1998, as amended, balances standing to the credit of members are refundable only in terms of Regulation 10 of the Act.

Advances on savings contributions are funded from the Scheme's funds and the risk of impairment is carried by the Scheme.

The personal medical savings account trust monies are invested on behalf of members in deposits held in a call account. These monies are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Interest is allocated to members with positive balances in their trust accounts monthly.

1.6 Insurance contracts

Contracts under which the Scheme accepts significant insurance risk from another party (the member or other beneficiaries) by agreeing to compensate the member or other beneficiaries if a specified uncertain future event (the insured event, i.e. occurrence of a medical expense) adversely affects the member or their dependents are classified as insurance contracts. In terms of these contracts the Scheme is obligated to compensate its members for the healthcare expenses they have incurred.

1.7 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 for which 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.

The expected future cash flows are discounted at a pre tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The unwinding of the discount is recognised as a finance cost.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account risks and uncertainties surrounding the obligation.

1.8 Outstanding risk claims provision

Outstanding risk claims comprise provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred by not yet reported at the reporting date. Outstanding risk claims are determined as accurately as possible on the basis of a number of factors, which includes previous experience in claims patterns, claims settlement patterns, changes in the 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.



Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

1.8 Outstanding risk claims provision (continued)

Estimated co-payments and payments from personal medical savings accounts are deducted in calculating the outstanding risk claims provision. The Scheme does not discount its outstanding risk claims provision, since the effect of the time value of money is not considered material.

A standard operating procedure governing the calculation of the provision as agreed with the Scheme is followed by the Scheme's actuaries to ensure consistency in the application and interpretation of results.

1.9 Risk contribution income

Contributions on member insurance contracts are accounted for monthly when their collection in terms of the insurance contract is reasonably certain. Risk contributions represent the gross contributions per the registered rules after the unbundling of savings contributions. The earned portion of risk contributions received is recognised as revenue. Risk contributions are earned from the date of attachment of risk, over the indemnity period on a straight line basis. Risk contributions are presented before the deduction of broker service fees and other acquisition costs.

1.10 Risk claims incurred

Risk claims incurred comprise the total estimated cost of all claims (including claim handling costs) arising from healthcare events that have occurred in the year and for which the Scheme is responsible in terms of its registered rules, whether or not reported by the end of the year.

Net risk claims incurred comprise of the following:

- Claims submitted and accrued for services rendered during the year, net of discounts received, recoveries from members for co-payments and personal medical savings accounts; and
- Movements in the outstanding risk claims provision.

1.11 Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1.12 Liabilities and related assets under liability adequacy test

The liability for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of any related assets. Where a shortfall is identified, an additional provision is made and the Scheme recognises the deficit in profit or loss for the year.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

1.13 Managed care services

These expenses represent expenditure and amounts paid or payable to accredited managed care organisations contracted by the Scheme for management of the utilisation costs and quality of healthcare services supplied to the Scheme and its members. These fees are expensed as incurred.

The services provided by these organisations include hospital pre-authorisation, disease management programmes, optical and dental managed care services, pharmaceutical benefit and network management, strategic managed care services, emergency medical dispatch services and maternity programme services.

1.14 Investment income

The Scheme's finance income includes:

- Dividends on investments;
- The net realised gains or losses on financial assets at fair value through profit or loss;
- The net unrealised gains or losses on financial assets at fair value through profit or loss; and
- The net interest on investments and cash and cash equivalents.

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. Dividend income is recognised when the right to receive payment is established.

1.15 Impairment losses

(i) Non-derivative financial assets

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) that can be estimated reliably had an impact on the estimated future cash flows of that asset.

Financial assets measured at amortised cost: Loans and receivables

The Scheme considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific and collective asset level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Scheme uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.



Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

1.15 Impairment losses

(i) Non-derivative financial assets (continued)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired assets continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised as an expense.

The recoverable amount of other assets is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

When an impairment loss subsequently reverses,

the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

1.16 Allocation of revenue and expenditure to benefit options

Revenue and expenditure is allocated to benefit options on a direct basis where this is determinable. Where revenue and expenditure is not directly attributable to a specific benefit option, the revenue or expense is allocated on the basis of the benefit option's membership proportionate to the Scheme's overall membership base. Investment income and investment management fees are allocated on the basis of the benefit option's contribution income proportionate to that of the overall Scheme.

The following items are directly allocated to benefit options:

- Risk contributions;
- Risk claims incurred; and
- Savings interest.

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

- Other administration expenditure;
- Other income;
- Other expenditure;
- Managed care services; and
- Administration fees.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

1.17 Unclaimed benefits

Unclaimed benefits are written back to income after a period of three years. Unclaimed benefits consist of member credits and unidentified deposits in line with the Scheme's debt management policy.

1.18 Road Accident Fund (RAF) recoveries

Amounts received from the RAF are not recognised in profit or loss and recognised as accounts payable. These amounts are refunded to members.

1.19 Relevant healthcare expenditure

Relevant healthcare expenditure consists of net claims incurred and managed care services.

1.20 Employee benefits

Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the relevant service is provided.

Post employment benefits

Obligations for contributions to post employment benefits to defined contribution plans are measured on an undiscounted basis and are expensed as the relevant service is provided.

1.21 Intangible assets

An intangible asset is recognised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Intangible assets are measured at cost less any accumulated amortisation and any impairment losses subsequent to its initial recognition at cost.

Development expenditure of an internally developed intangible asset is capitalised only if the expenditure can be measured reliably, the product

is technically and commercial feasible, future economic benefits are probably and the Scheme has sufficient resources to complete development and to use the asset. Otherwise, it is recognised in profit or loss as incurred. Expenditure on research activities is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses. An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Software	3 Years



Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

1.22 Government grants

A government grant is not recognised until there is reasonable assurance that the Scheme will comply with the conditions attached to it and that the grant will be received.

A government grant is initially recognised as deferred income and is recognised in profit or loss on a systematic basis over the periods in which the Scheme recognises as expenses the related cost for which the grant is intended to compensate.

A government grant that is receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Scheme with no future related costs is recognised in the statement of comprehensive income in the period in which it becomes receivable.

2 NEW STANDARDS AND INTERPRETATIONS

STANDARDS AND INTERPRETATIONS APPLICABLE TO THE SCHEME NOT YET EFFECTIVE

The following new standards and amendments to IFRSs 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, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new

general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Scheme will adopt the standard in the first annual period beginning on or after the mandatory effective date. The impact of the adoption of IFRS 9 has not yet been estimated.

IFRS 15 Revenue from Contracts from Customers

New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five step methodology that is required to be applied to all contracts with customers.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 and the impact of the adoption of IFRS 15 has not yet been estimated.

IFRS 16 Leases

New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 also contains expanded disclosure requirements for lessees.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

2 NEW STANDARDS AND INTERPRETATIONS (continued)

AMENDMENTS TO STANDARDS ADOPTED IN THE CURRENT YEAR (continued)

IFRS 16 Leases (continued)

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019 and the impact of the adoption of IFRS 16 has not yet been estimated.

AMENDMENTS TO STANDARDS ADOPTED IN THE CURRENT YEAR

IAS 1 Presentation of Financial Statements

The standard is amended to encourage an entity to apply professional judgement in determining what information to disclose in their financial statements. Furthermore, the amendments also clarify that an entity should use professional judgement in determining where and in what order information is presented in the financial disclosures.

IAS 1 amendment is effective for annual reporting periods beginning on or after 1 January 2016, with early adoption permitted. This amendment has no impact on these financial statements.

IAS 16 Property, Plant and Equipment

The standard was amended to establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.

IAS 16 amendment is effective for annual reporting periods beginning on or after 1 January 2016. This amendment has no impact on these financial statements.

IAS 24 Related party disclosures

The standard was 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.

IAS 24 amendment is effective for annual reporting periods beginning on or after 1 July 2014, with early adoption permitted.

There is no significant impact on the Scheme of adopting this amendment. Transactions and balances with certain outsourced service providers have previously been disclosed as significant outsourcing relationships within the “related and other significant parties” disclosure. These parties have now been classified as related parties, however, no additional disclosures, when compared to prior years, is required.

IAS 38 Intangible Assets

The standard is amended to establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.

IAS 16 amendment is effective for annual reporting periods beginning on or after 1 January 2016. This amendment has no impact on these financial statements.



Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

3 EQUIPMENT

	2015			2014		
	R '000			R '000		
	Cost	Accumulated Depreciation	Carrying value	Cost	Accumulated Depreciation	Carrying value
Computer equipment and software	6,757	(3,474)	3,283	4,236	(2,177)	2,059
Furniture and fittings	2,469	(1,296)	1,173	1,356	(1,078)	278
Leasehold improvements	3,222	(2,588)	634	2,643	(2,068)	575
Motor vehicles	2,934	(870)	2,064	2,934	(407)	2,527
Office equipment	1,935	(1,243)	692	1,675	(1,020)	655
	17,317	(9,471)	7,846	12,844	(6,750)	6,094

Reconciliation of equipment 2015 (R '000)	Opening Balance	Additions	Disposals	Depreciation	Closing Balance
Computer equipment and software	2,059	2,603	(2)	(1,377)	3,283
Furniture and fittings	278	1,113	-	(218)	1,173
Leasehold improvements	575	579	-	(520)	634
Motor vehicles	2,527	-	-	(463)	2,064
Office equipment	655	260	-	(223)	692
	6,094	4,555	(2)	(2,801)	7,846

Reconciliation of equipment 2014 (R '000)	Opening Balance	Additions	Disposals	Depreciation	Closing Balance
Computer equipment and software	1,127	1,507	(37)	(538)	2,059
Furniture and fittings	430	67	(51)	(168)	278
Leasehold improvements	342	590	-	(357)	575
Motor vehicles	1,080	1,593	-	(146)	2,527
Office equipment	599	311	(36)	(219)	655
	3,578	4,068	(124)	(1,428)	6,094



Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

4 INTANGIBLE ASSETS

	2015			2014		
	Cost	Accumulated Depreciation	Carrying value	Cost	Accumulated Depreciation	Carrying value
Software	807	(807)		807	(538)	269
Software (work in progress)	16,950	-	16,950	-	-	-
	17,757	(807)	16,950	807	(538)	269

Reconciliation of intangible assets 2015 R '000	Opening Balance	Additions	Disposals	Depreciation	Closing Balance
Computer equipment and software	269	-	-	(269)	-
Furniture and fittings	-	16,950	-	-	16,950
	269	16,950	-	(269)	16,950

Reconciliation of intangible assets 2014 R '000	Opening Balance	Additions	Disposals	Depreciation	Closing Balance
Software	538	-	-	(269)	269
	538	-	-	(269)	269



Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015	2014
	R '000	R '000
Additions to investments	450,000	-
Realised gains and interest	5,246	-
Unrealised losses	(3,865)	-
Investment transaction fees*	(26)	-
Fair value of investments at year end	451,355	-
Less Accrued interest **	(4,279)	-
Closing balance of investments	447,076	-
Non-current assets	359,403	-
Current assets	87,673	-
	447,076	-

* Investment transaction fees are deducted directly from investment portfolio balances and are included as part of investment management fees.

** Accrued interest is not capitalised and is included with Accrued Interest on note 6, Trade and other receivables.

Financial assets at fair value through profit or loss consist of money market instruments, bonds and equities. Financial assets at fair value through profit or loss are categorised as Levels 1 and 2. Refer note 29.



Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

6 TRADE AND OTHER RECEIVABLES

	2015	2014
	R '000	R '000
Insurance receivables		
Contributions outstanding	205,335	128,433
Receivables from members and providers	66,460	34,508
Personal medical savings account advances (note 9)	1,001	845
Receivables balance before impairment	272,796	163,786
Less: Balance of allowance for impairment at 31 December	(24,712)	(24,368)
Balance as at 1 January	24,368	54,607
Amount recognised in the Statement of Comprehensive Income	52,382	53,973
Amounts utilised during the period	(52,038)	(84,212)
Total insurance receivables	248,084	139,418
Financial receivables		
Accrued interest	38,153	30,771
Sundry accounts receivable	31,870	3,263
Total financial receivables	70,023	34,034
Total trade and other receivables	318,107	173,452

Trade and other receivables disclosed above are classified as loans and receivables and are measured at amortised cost. The carrying amounts of receivables approximate their fair value due to the short term maturities of these assets. No interest is charged on overdue balances in line with Scheme Rules.

The Scheme has recognised an allowance for impairment of 100% against all receivables from deceased members and all categories of receivables outstanding for longer than 120 days based on historical experience.

For an analysis of the ageing of receivables refer to note 29.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

7 CASH AND CASH EQUIVALENTS: SCHEME CASH INVESTED

	2015	2014
	R '000	R '000
Call accounts	2,345,231	2,092,927
Current accounts	254,940	78,431
Fixed deposit	805,000	1,260,000
Total cash and cash equivalents: Scheme cash invested	3,405,171	3,431,358

The average effective interest rate on the current accounts, call accounts and fixed deposits was 5.58% (2014: 5.50%).

The carrying amounts of cash and cash equivalents approximate their fair values due to the short term maturities of these assets. Fair value is determined to be equal to the carrying value of the deposit.

For an analysis of the average interest rates and maturity refer to note 29.

8 PERSONAL MEDICAL SAVINGS ACCOUNT TRUST MONIES INVESTED

	2015	2014
	R '000	R '000
Call deposit	459,251	352,133
	459,251	352,133

The carrying amount of the trust funds investment approximates its fair value due to the short term maturity of this asset.

These funds are held in a call account with Investec Bank and the effective interest rate on the call deposit was 6.10% (2014: 5.65%).



Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

9 PERSONAL MEDICAL SAVINGS ACCOUNT TRUST MONIES

	2015	2014
	R '000	R '000
Gross balance of personal medical savings account trust liability at beginning of the year	380,901	296,314
Less: Advances on personal medical savings account trust liability at beginning of year	(845)	(693)
Balance of personal medical savings account trust liability at the beginning of the year	380,056	295,621
Savings account contributions received (note 14)	568,853	471,959
Transfers from other schemes in terms of Regulation 10(4)	159	360
Interest income earned on trust monies invested	24,541	17,902
Refunds on death or resignation in terms of Regulation 10(5)	(54,413)	(32,791)
Claw backs from members	5,766	4,627
Claims paid on behalf of members (note 15)	(432,248)	(377,622)
Personal medical savings account advances (note 6)	1,001	845
Balances due to members on personal medical savings accounts held in trust at the end of the year	493,715	380,901

In accordance with the Rules of the Scheme, the savings plan is underwritten by the Scheme.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

9 PERSONAL MEDICAL SAVINGS ACCOUNT TRUST MONIES (continued)

The personal medical savings account liability contains a demand feature that any credit balance on the savings account will be transferred to the member in terms of the Medical Schemes Act and the Scheme Rules when a member registers on another benefit option or medical scheme which does not have a savings account or when a member resigns from the Scheme.

As at year end the carrying amount of the members' personal medical savings accounts were deemed to be equal to its fair value, which is the amount payable on demand. The amounts were not discounted due to the demand feature.

Interest on the members' personal medical savings accounts is calculated and allocated on a monthly basis using the effective interest method.

It is estimated that claims to be paid out from members' personal medical savings accounts in respect of claims incurred in 2015 but not recorded amount to R7.1 million (2014: R5.9 million).

Advances on personal medical savings accounts are funded by the Scheme and are included in trade and other receivables (refer note 6). The Scheme does not charge interest on advances on personal medical savings accounts.

The effect of discounting is not material.

Refer to note 8 with regards to investment of the personal medical savings accounts trust monies.





Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

10 TRADE AND OTHER PAYABLES

	2015	2014
	R '000	R '000
Insurance liabilities		
Claims reported not yet paid		
Balance at the beginning of the year	-	-
Claims incurred	25,740,758	24,601,718
Claims settled	(25,541,080)	(24,601,718)
Total liabilities arising from insurance contracts	199,678	-
Financial liabilities		
Administration fees payable	71,914	63,164
Consulting fees payable	1,524	7,809
Managed care fees due	56,291	54,992
Marketing services	9,775	9,401
Refunds due to members	2,709	2,468
Sundry payables and accrued expenses	53,251	28,804
Trade payables	103,376	66,930
Unallocated deposits	306	405
Total arising from financial liabilities	299,146	233,973
Total trade and other payables	498,824	233,973

The carrying amounts of trade payables approximate their fair values due to the short term maturities of these liabilities. Fair value is equal to the face value of the amount invoiced by the creditor. The average payment terms for trade payables are 25 days (2014: 23 days).

The Scheme has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms and no interest is incurred on outstanding balances.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

11 OUTSTANDING RISK CLAIMS PROVISION

	2015	2014
	R '000	R '000
Outstanding risk claims provision		
Not covered by risk transfer arrangements	1,000,800	947,110
Analysis of movements in outstanding risk claims		
Opening balance	947,110	861,398
Payments in respect of prior year	(962,173)	(883,864)
Prior year under provision	(15,063)	(22,466)
Current year increase in provision	1,015,863	969,576
Balance at the end of the year	1,000,800	947,110
Analysis of outstanding risk claims provision 2015	Estimated gross claims	Balance at the end of the year
Not covered by risk transfer arrangements	1,000,800	1,000,800
Analysis of outstanding risk claims provision 2014		
Not covered by risk transfer arrangements	947,110	947,110

This provision, known as the outstanding risk claims provision, is determined by way of statistically sound analyses of a number of factors, which include previous experience in claim patterns, claim settlement patterns, changes in the number of members according to gender and age, trends in claim frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim. The provision is net of estimated recoveries from members for co-payments.



Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

11 OUTSTANDING RISK CLAIMS PROVISION (continued)

The actuaries followed a standard operating procedure governing the calculation of the provision as agreed with the Scheme to ensure consistency in application and interpretation of results. The Scheme does not discount its outstanding risk claims provision since the effect of the time value of money is not considered material. The adequacy of the provision is assessed on a monthly basis, through reviews of past experience and consideration of changes in fundamentals such as claims processing and composition. Furthermore, the Scheme has standardised the provision calculation methodology and any deviation to this is adequately supported. An actuarial peer review of the provision calculation is in place and the Scheme considers the outstanding risk claims provision of R1 billion (2014: R947 million) to be adequate. The estimation of the provision gives an indication of whether the Scheme would have adequate assets to cover the potential liability from the Scheme's insurance contracts, as required by accounting policy. The Scheme has sufficient assets to cover any potential liability from insurance contracts as the cash and cash equivalents at year end cover the outstanding risk claims provision three times.

Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from managed care organisations and historical evidence of the quantum of similar claims. The provisions are 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 cost of the loss is difficult to estimate. The provision estimation also accommodates the processing and adjudication of different categories of claims (i.e. in hospital, chronic and above threshold benefits). This is caused by differences in the underlying insurance contract, claim complexity, the volume of claims, the individual severity of claims, the determination of the occurrence date of a claim, and reporting lags.

Members must submit all claims for payment within four months of seeking medical treatment (i.e. the date of service). The cost of outstanding claims at the reporting date is estimated with reference to the actual claims submitted within the first three months after the reporting date that relates to the period before the reporting date. The claims to be submitted in the fourth month, relating to the reporting period, are then extrapolated using the bootstrapping, chain ladder, expected minus actual and the Bornhutter Ferguson method.

The Bornhutter Ferguson method was the preferred actuarial method for estimating the provision for the year under review and the prior year. This method of calculating the outstanding risk claims provision is in line with the standard operating procedure (SOP) for the Scheme. Refer to note 25 for actuarial assumptions made.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

12 GOVERNMENT GRANT

The grant was awarded by National Treasury to the Scheme to eliminate the significant financial impact experienced with the transfer of the pre-1992 pensioners to the Scheme during April 2012 as part of future streamlining of medical provisioning, particularly in the public sector through National Treasury. National Treasury awarded an amount of R600 million over a maximum period of four years commencing in 2012. The last installment of the grant was received in 2015.

	2015 R '000	2014 R '000
Receivable		
Government grant receivable - Current	-	254,164
	-	254,164

The government grant is recognised to the extent that the expenditure, for which the grant was intended, is incurred during the year.

The government grant receivable was discounted on initial recognition at a rate of 5.25% (2014: 5.25%), the average rate applicable to government bonds over the same period.





Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

13 ANALYSIS OF CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES PER CATEGORY

R '000

2015

	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost	Total
Financial assets at fair value through profit or loss	447,076	-	-	447,076
Trade and other receivables	-	318,107	-	318,107
Cash and cash equivalents	-	3,405,171	-	3,405,171
Personal medical savings account investment	-	459,251	-	459,251
Personal medical savings account liability	-	-	(493,715)	(493,715)
Trade and other payables	-	-	(498,824)	(498,824)
	447,076	4,182,529	(992,539)	3,637,066

2014

	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost	Total
Government Grant	-	254,164	-	254,164
Trade and other receivables	-	173,452	-	173,452
Cash and cash equivalents	-	3,431,358	-	3,431,358
Personal medical savings account investment	-	352,133	-	352,133
Personal medical savings account liability	-	-	(380,901)	(380,901)
Trade and other payables	-	-	(233,973)	(233,973)
	-	4,211,107	(614,874)	3,596,233

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

14 RISK CONTRIBUTION INCOME

	2015	2014
	R '000	R '000
Gross contributions per registered rules	28,139,221	26,502,193
Less: Savings contributions received *	(568,853)	(471,959)
Risk contribution income per statement of comprehensive income	27,570,368	26,030,234

* The savings contributions are received by the Scheme in terms of Regulation 10(1) and the Scheme's registered Rules and held in trust on behalf of its members. Refer to note 8 for more detail on how these monies were invested and to note 9 on how the monies were utilised.

14 RISK CLAIMS INCURRED

Claims incurred

	2015	2014
	R '000	R '000
Current year claims per registered rules (including under provision of prior year outstanding risk claims provision)*	25,176,790	24,040,081
Outstanding risk claims provision as at 31 December	1,000,800	947,110
Less:	(436,832)	(385,473)
Claims paid from personal medical savings accounts**	(432,248)	(377,622)
Discount received on claims	(4,584)	(7,851)
Total net claims incurred	25,740,758	24,601,718

The claims ratio is calculated as claims incurred expressed as a percentage of risk contributions received. The Scheme recorded a claims ratio for the current financial year of 93% (2014: 95%).

* Healthcare Networks amount of R74.1 million (2014: R74.9 million), previously included in Administration expenditure has been reallocated to and included in Risk claims incurred.

** Claims are paid on behalf of the members from their personal medical savings accounts in terms of Regulation 10(3) and the Scheme's registered benefits. Refer to note 9 for a breakdown of the movement in these balances.



Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

16 MANAGED CARE SERVICES

	R '000	R '000
	2015	2014
Chronic medicine management services	134,508	129,216
Dental managed care	48,803	46,043
HIV management	40,923	39,330
Managed care services	312,915	314,925
Pharmaceutical benefit management	101,669	91,852
	638,818	621,366

Fees are contractually determined per member per month, reducing any upfront capital outlays and reducing as membership grows resulting in improved economies of scale.

Refer to note 27 for more information on managed care agreements.

Circular 56 of 2015 issued by the Council for Medical Schemes on 9 September 2015 concluded that all accredited managed care services should be included as part of healthcare expenditure as they directly impact on the delivery of cost-effective and appropriate healthcare benefits to beneficiaries of medical schemes. Managed care fees have therefore been reallocated from below 'Gross healthcare result' to 'Relevant healthcare expenditure' in the Statement of Comprehensive Income for 2014 and 2015. The reallocation has not affected or altered the 'Net healthcare result' or net position of the Scheme.



Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

17 ADMINISTRATION EXPENDITURE

	2015	2014
	R '000	R '000
Actuarial fees	5,669	7,710
Administration fees	813,343	754,403
Advertising and marketing	55,908	41,601
Auditors' remuneration - statutory fees	2,208	2,057
Benefit management services	106,203	99,346
Board and Committee fees	6,964	9,640
Conferences and workshops	2,882	1,621
Consulting fees	83,157	59,998
Depreciation	3,070	1,697
Employee costs	83,830	56,657
Legal expenses	3,906	7,933
Loss on disposal of assets	2	124
Motor vehicle expenses	227	214
Office supplies	7,781	5,865
Practice Code Numbering System (PCNS) fees and CMS levies	22,243	19,597
Principal Officer's fees	4,223	3,759
Rental paid	10,657	7,414
Telephone and fax	5,116	3,876
Travel and accommodation	8,018	6,131
Trustee elections*	-	16,153
Trustees' and Committee members' training	65	106
Trustees' and Committee members' travel and accommodation	1,223	1,596
Water and electricity	1,141	1,107
	1,227,836	1,108,606

* The trustee election process took place in 2014, leading to various material costs relating to advertising, printing and translations pertaining to the election process.



Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

18 TRUSTEES' AND INDEPENDENT COMMITTEE MEMBERS' REMUNERATION

Board of Trustees' remuneration		Attendance Fees		Travel And Accommodation		Reimbursements And Allowances		Training		Total	
		2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
R '000	Term End										
Mr M Diphofa	27/7/2014	-	-	-	4	-	-	-	-	-	4
Ms JC Brink	27/7/2014	-	252	-	18	-	-	-	-	-	270
Dr P Dyantyi	22/5/2014	-	293	-	148	-	11	-	-	-	452
Dr A Ferreira	27/7/2014	-	487	-	16	-	3	-	-	-	506
Mr J Ndlovu	27/7/2014	-	357	-	27	-	5	-	-	-	389
Mr K Ndaba	22/7/2019	-	-	7	29	-	-	-	1	7	30
Ms NH Mkhumane	22/7/2019	353	89	18	-	1	1	1	-	373	90
Mr BE De Vries	22/7/2019	414	449	304	267	18	9	13	13	749	738
Mr CJ Booyens	22/7/2019	640	762	40	72	22	29	-	5	702	868
Mr ZC Rikhotso	26/9/2019	500	645	52	83	3	1	-	1	555	730
Chairperson											
Ms N Ntsinde	31/7/2019	675	875	96	39	10	6	1	5	782	925
Deputy Chairperson											
Mr D De Villiers	31/7/2019	675	562	41	42	1	7	6	9	723	620
Mr NL Theledi	26/9/2019	327	466	60	90	3	-	6	4	396	560
Dr IJ Van Zyl	29/7/2020	431	458	64	81	15	15	6	7	516	561
Dr JA Breed	29/7/2020	414	389	79	83	25	17	12	8	530	497
Dr CM Mini	29/7/2020	771	432	71	40	9	-	14	4	865	476
Mr JS Roux	29/7/2020	623	762	317	420	16	13	6	13	962	1,208
		5,823	7,278	1,149	1,459	123	117	65	70	7,160	8,924

The Trustee remuneration should be seen in relation to the attendance of meetings as reported in the Board of Trustees report as well as the term of office applicable to each trustee. It is worth noting that not all Trustees reside in Gauteng and therefore travel and accommodation costs are incurred. The total of the Trustees Fees disclosed in this note is included in the Board and Committee fee line items as disclosed in Administration Expenditure (refer note 17).

Mr K Ndaba is a DPSA representative and does not get remunerated for his duties as a Trustee. The Scheme is however responsible for his travel costs (flights, car hire and accommodation) for attending the AGM of the Scheme and any other offsite meetings, should he be required to attend.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

18 TRUSTEES' AND INDEPENDENT COMMITTEE MEMBERS' REMUNERATION (Continued)

Independent Committee members' remuneration		Attendance Fees		Travel And Accommodation		Reimbursements And Allowances		Training		Total	
		2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
R '000	Term End										
Ms LR Zondi	31/3/2015	78	27	6	6	-	-	-	-	84	33
Mr M Mondli	31/3/2015	39	292	-	13	-	2	-	2	39	309
Ms T Marah	31/3/2015	26	187	-	6	-	1	-	3	26	197
Prof M Blockman	26/9/2014	-	105	-	26	-	1	-	-	-	132
Dr R Benita	26/9/2014	-	105	-	-	-	1	-	-	-	106
Prof LM Dreosti	26/9/2014	-	65	-	-	-	-	-	-	-	65
Ms M Tonjeni	31/3/2015	26	197	-	1	-	-	-	5	26	203
Ms M Sukathi	31/3/2018	350	547	15	37	-	-	-	5	365	589
Dr F Msiza	31/3/2016	131	214	11	4	-	-	-	5	142	223
Mr N Mhlongo	31/3/2016	131	153	5	-	1	1	-	12	137	166
Dr P Ford	31/3/2016	52	18	22	7	-	-	-	-	74	25
Ms M David	31/3/2016	52	18	5	30	1	-	-	-	58	48
Ms TA Ndoni	30/6/2016	26	104	-	-	-	1	-	4	26	109
Ms P Ndumo-Vilakazi	30/6/2016	52	157	-	7	-	-	-	-	52	164
Mr L Jijya	30/6/2016	40	48	-	-	-	1	-	-	40	49
Ms RHS Eksteen	30/10/2018	13	-	10	-	-	-	-	-	23	-
		1,016	2,237	74	137	2	8	-	36	1,092	2,418

Remuneration paid to independent committee members during 2015 was based on a maximum fee per hour spent at the meeting, capped at a maximum rate per day.



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Notes to the Annual Financial Statements (continued)

19 IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES

	2015	2014
	R '000	R '000
Movement in the allowance account for impairment losses	344	129,216
Impairment losses recognised directly in income	52,038	46,043
	52,382	621,366

20 INVESTMENT INCOME

	2015	2014
	R '000	R '000
Dividends received	317	-
Interest received on financial assets at fair value through profit or loss	4,709	-
Net realised gains on financial assets at fair value through profit or loss	220	-
Net unrealised losses on financial assets at fair value through profit or loss	(3,865)	-
Interest received on Scheme cash invested	198,190	175,135
Personal medical savings account trust monies invested	24,541	17,902
	224,112	193,037

Interest income is comprised of interest earned from short term fixed deposits, current accounts and money market instruments. This interest is recognised on a yield to maturity basis, taking into account the principal amount outstanding and the effective interest rate over the period to maturity.

The personal medical savings account, which is managed by the Scheme on behalf of its members, represents savings contributions (which are a deposit component of the insurance contracts), and accrued interest thereon, net of any savings claims paid on behalf of members in terms of the Scheme's registered rules.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

21 GOVERNMENT GRANT INCOME

	2015 R '000	2014 R '000
Government grant income	-	52,071
	-	52,071

National Treasury awarded an amount of R600 million over a maximum period of four years commencing in 2012 to eliminate the significant financial impact experienced with the transfer of the pre-1992 state pensioners to the Scheme during April 2012 and for future streamlining of medical provisioning by National Treasury, particularly in the public sector.

The government grant is recognised to the extent that the expenditure, for which the grant was intended, is incurred during the year.

Refer to note 12 for additional information.

22 COMMITMENTS

	2015 R '000	2014 R '000
Operating leases commitment		
The future minimum lease payments under a non-cancellable operating lease:		
- Less than 1 year	4,407	8,803
- More than 1 year and less than 5 years	16,611	6,033
	21,018	14,836
Lease amounts recognised in profit or loss during the year		
Rental paid	10,657	7,414

Operating lease payments represent rentals payable by the Scheme for its office properties. Leases are negotiated for an average term of five years and the lease escalation is 8% per annum over the lease period for the rental component and 8% for lease operating costs. No contingent rent is payable.

Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

23 NET HEALTHCARE RESULT PER BENEFIT OPTION

R '000	SAPPHIRE		BERYL		RUBY		EMERALD		ONYX		TOTAL	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Risk contribution income	741,564	611,102	556,422	359,045	1,706,418	1,415,632	22,305,859	21,441,998	2,260,105	2,202,457	27,570,368	26,030,234
Relevant healthcare expenditure	(233,365)	(207,576)	(454,472)	(291,955)	(1,355,471)	(1,073,580)	(21,448,464)	(20,737,847)	(2,887,804)	(2,912,126)	(26,379,576)	(25,223,084)
Risk claims incurred	(197,009)	(176,199)	(433,097)	(277,115)	(1,300,469)	(1,026,026)	(20,964,607)	(20,253,394)	(2,845,576)	(2,868,984)	(25,740,758)	(24,601,718)
Managed care services*	(36,356)	(31,377)	(21,375)	(14,840)	(55,002)	(47,554)	(483,857)	(484,453)	(42,228)	(43,142)	(638,818)	(621,366)
Gross healthcare result	508,199	403,526	101,950	67,090	350,947	342,052	857,395	704,151	(627,699)	(709,669)	1,190,792	807,150
Administration expenditure	(70,062)	(55,987)	(41,399)	(26,500)	(105,890)	(84,916)	(929,429)	(864,281)	(81,056)	(76,921)	(1,227,836)	(1,108,605)
Marketing services	(6,592)	(5,588)	(3,885)	(2,644)	(9,968)	(8,472)	(87,593)	(86,239)	(7,646)	(7,679)	(115,684)	(110,622)
Net impairment losses on healthcare receivables	(2,890)	(4,375)	(1,887)	(2,428)	(5,976)	(13,605)	(40,970)	(24,556)	(659)	(9,009)	(52,382)	(53,973)
Net healthcare result	428,655	337,576	54,779	35,518	229,113	235,059	(200,597)	(270,925)	(717,060)	(803,278)	(205,110)	(466,050)
Investment income	5,389	4,107	4,016	2,411	12,360	9,516	161,453	144,277	16,353	14,824	199,571	175,135
Interest allocated to personal medical savings accounts	-	-	-	-	24,541	17,902	-	-	-	-	24,541	17,902
Interest allocated to personal medical savings accounts	-	-	-	-	(24,541)	(17,902)	-	-	-	-	(24,541)	(17,902)
Other income	300	408	186	197	450	617	3,953	6,153	330	546	5,219	7,921
Net interest adjustment on government grant	-	-	-	-	-	-	-	-	5,836	11,633	5,836	11,633
Government grant income	-	-	-	-	-	-	-	-	-	52,071	-	52,071
Investment management fees	(5)	-	(4)	-	(13)	-	(163)	-	(17)	-	(202)	-
Total comprehensive surplus/(deficit) for the year	434,339	342,091	58,977	38,126	241,910	245,192	(35,354)	(120,495)	(694,558)	(724,204)	5,314	(219,290)
Number of members	40,450	36,426	25,670	17,915	60,579	54,963	504,521	531,600	43,453	46,790	674,673	687,694

* Refer to note 16 for detail relating to the reallocation of managed care services fees to Relevant healthcare expenditure.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

23 NET HEALTHCARE RESULT PER BENEFIT OPTION (Continued)

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

The Scheme offers its members five different benefit options: Sapphire, Beryl, Ruby, Emerald and Onyx.

Sapphire and Beryl are the entry level options where cover is provided by designated provider networks. Sapphire was specifically designed to be inexpensive and it achieves this by providing out of hospital care at private facilities and in hospital cover at public facilities. Beryl provides in hospital cover at both public and private facilities.

Ruby offers members a savings account for day-to-day medical expenses as well as a hospital benefit. Savings contributions portion is comprised of 25% of contribution income of the Ruby option.

Emerald is the traditional option and the majority of the membership population is part of this option.

Onyx is the comprehensive option. Following engagements and approval from the Department of Public Service and Administration (DPSA) and National Treasury (NT) the Scheme migrated the pre-1992 state pensioners from Medihelp to GEMS, effective 1 April 2012. These members were registered on the Onyx option which adversely affected the financial performance of this option during the financial year.

National Treasury awarded an amount of R600 million over a maximum period of four years commencing in 2012 to eliminate the significant financial impact experienced with the transfer of the pre-1992 state pensioners to the Scheme during April 2012 and for future streamlining of medical provisioning by National Treasury, particularly in the public sector.

The government grant is recognised as income to the extent that the expenditure, for which the grant was intended, is incurred during the year. During the 2015 financial period there was no government grant recognised as income (2014: R52 million).



Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

24 CASH GENERATED FROM /(UTILISED BY) OPERATIONS

	2015	2014
	R '000	R '000
Surplus/(Deficit) for the year	5,314	(219,290)
Adjustments for:		
Depreciation and impairment	3,070	1,697
Investment transaction fees	26	-
Loss on disposal of assets	2	124
Government grant		
Cash received from government	260,000	-
Investment income:		
Scheme cash invested	(198,190)	(175,135)
Income earned on financial assets at fair value through profit or loss	(1,381)	-
Interest earned on trust monies invested	24,541	17,902
Personal medical savings account trust monies invested	(24,541)	(17,902)
Net interest adjustment of government grant	(5,836)	(11,633)
Impairment of healthcare receivables	52,382	53,973
Movements in outstanding risk claims provision	53,690	85,712
Government grant income	-	(52,071)
Changes in working capital:		
Trade and other receivables	(194,139)	(61,789)
Trade and other payables	264,851	46,698
Personal medical savings account trust monies	112,814	84,587
Lease escalation reserve	262	(518)
	352,865	(247,645)

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

25 CRITICAL ACCOUNTING JUDGEMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Scheme's accounting policies, management has made no judgements that have a significant effect on the amounts recognised in the financial statements, other than the outstanding risk claims provision, the measurement and recognition of the government grant and the impairment allowance for trade and other receivables, as explained further in this note.

Impairment of trade and other receivables

Objective evidence of the impairment of trade and other receivables includes the Scheme's past experience of collecting payments, trade and other receivables outstanding for 120 days or more and receivables due from deceased members. Refer to note 1.15 for more detail with regards to the accounting policy for impairment losses.

Outstanding risk claims provision

This provision has been calculated on the standard operating procedure as agreed between the Scheme and its actuaries.

The assumptions that have the greatest effect on the measurement of the outstanding risk claims provision are the expected claims development for the most recent benefit months for the day-to-day, in hospital, acute and chronic benefit categories of claims

There is some uncertainty that has to be considered in the provision for the estimate of the liability arising from outstanding claims i.e. the cost of healthcare benefits that have occurred before the end of the accounting period but have not been reported to the Scheme by that date.

Sources of unreported claim payments include:

- Unknown and hence unreported claims; and
- closed claims that later become reopened and have additional payments made.

If no or insufficient allowance is made for these claims, the result is that the Scheme is likely to hold insufficient funds aside for paying claims. This in turn impacts the Scheme's cash flow and ability to honour claims. The Scheme does not discount its outstanding risk claims provision as the effect of the time value of money is not considered material.

The following table illustrates the quantum of uncertainty inherent to the outstanding risk claims provision estimates. As opposed to claims for 2015 that have already been paid, the claims for 2015 estimate to be paid (or reopened) in future payment months are still subject to uncertainty. This quantity forms a useful basis for a sensitivity analysis. The table below illustrates the effect of a 3% increase and decrease in this amount.



Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

25 CRITICAL ACCOUNTING JUDGEMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

R '000

	Claims for 2015 ser- vices paid from Jan 2016 to March 2016	2015 claims estimated at the time to be paid after March 2016	2015 Outstanding risk claims provision	% change in outstanding risk claims provision
Base Scenario	991,026	9,774	1,000,800	0.00%
3% increase	991,026	10,067	1,001,093	0.03%
3% decrease	991,026	9,481	1,000,507	-0.03%

The same analysis appears below for 31 December 2014 financial year outstanding risk claims provision, where claims paid after March 2015 for 2014 forms the basis for the sensitivity analysis. Note that the base scenario figures below are actuals, not estimates.

R '000

	Claims for 2014 ser- vices paid from Jan 2015 to March 2015	2014 claims estimated at the time to be paid after March 2015	2014 Outstanding risk claims provision	% change in outstanding risk claims provision
Base Scenario	887,530	59,580	947,110	0.00%
3% increase	887,530	61,367	948,897	0.19%
3% decrease	887,530	57,793	945,323	-0.19%

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

25 CRITICAL ACCOUNTING JUDGEMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

The Scheme monitors each month's initial outstanding risk claims provision over a four month period as subsequent claims are received. The variances have been monitored to be within a range of 1% to 3% over time.

The Board of Trustees believe 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.

At 31 December 2015, if the estimated component of the outstanding risk claims provision had increased by 3% with all other variables held constant, the surplus (2014: deficit) for the year would have been R0.29 million lower (2014: R1.79 million higher).

At 31 December 2015, if the estimated component of the outstanding risk claims provision had decreased by 3% with all other variables held constant, the surplus (2014: deficit) for the year would have been R0.29 million higher (2014: R1.79 million lower).

Additional comments are provided in note 11.

Government grant

National Treasury awarded funding to the value of R600 million to the Scheme due to the financial impact of the migration of the pre-1992 state pensioners. This amount is payable over a maximum period of four years, with the last instalment received in 2015. The government grant is a critical accounting judgement due to the fact that assumptions are used in the estimation which includes the following:

- discount rate of 5.25% (2014: 5.25%)

26 PROFESSIONAL INDEMNITY AND FIDELITY INSURANCE

In accordance with the Scheme rules, the Scheme has Professional Indemnity and Fidelity insurance to cover the events of fidelity, trustees and officers' errors and omissions and medical scheme reimbursements. On 31 December 2015 the effective cover was R1 billion (2014: R1 billion). The Scheme's insurance contracts are reviewed for adequacy and reinstated annually.



Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

27 RELATED AND OTHER SIGNIFICANT PARTIES

Related Parties with significant influence over the Scheme

The Minister for Public Service and Administration is responsible for appointing 50% of the Board of Trustees and for determining the medical subsidy policy in the public service and thus has significant influence over the Scheme, but does not control it.

The Scheme engages with the Department of Public Service and Administration (DPSA) who is responsible for implementing and maintaining the medical subsidy policy. The DPSA therefore has significant influence over the Scheme, but does not control it.

Metropolitan Health Corporate (Pty) Ltd (MHC) provides membership and claims management services, financial and operational information and recommendations, through its administration agreement with the Scheme, on which policy decisions are based, and therefore it has significant influence over the Scheme, but does not control it.

Medscheme Holdings (Pty) Ltd provides contribution and debt management Services through its administration agreement with the Scheme from 1 January 2012, on which policy decisions are based, and therefore it has significant influence over the Scheme, but does not control it.

Medscheme Health Risk Solutions (Pty) Ltd (MHRS) and Metropolitan Health Risk Management (Pty) Ltd (MHRM) provide managed care information on which benefit design decisions are based and therefore they have significant influence over the Scheme, but do not control it.

Collaborate (Pty) Ltd provides correspondence services to the Scheme and therefore has significant influence over the Scheme, but does not control it.

Insight Actuaries (Pty) Ltd provides actuarial and consulting services to the Scheme and therefore has significant influence over the Scheme, but does not control it.

Key management personnel and their close family members

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

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

27 RELATED AND OTHER SIGNIFICANT PARTIES (Continued)

Transactions with related parties

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year.

Key management personnel

Compensation (includes remuneration and other costs)

Key management compensation consists of short-term employee benefits as contemplated in IAS 24.

	2015	2014
	R '000	R '000
Short term benefits	17,309	15,758
Post employment benefit	997	500
Bonus	1,066	974
	19,372	17,232
Principal Officer	4,223	3,759
Executive: Finance	2,799	2,618
Executive: Contracts and Operations	2,035	1,949
Executive: Communications and Member Affairs	1,979	1,851
Executive: Governance and Compliance	1,979	1,949
Executive: Healthcare Management	1,463	1,949
Chief Information Officer	1,690	1,322
Executive: Corporate Services	1,575	1,233
Chief Audit Executive	1,629	602
Gross contributions received (*)		
Board of Trustees	504	265
Principal Officer	27	14
Executive Committee	495	376
Claims incurred (*)		
Board of Trustees	735	613
Principal Officer	5	4
Executive Committee	203	119

(*) Gross contributions and claims incurred include contributions and claims incurred by members and their beneficiaries.



Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

27 RELATED AND OTHER SIGNIFICANT PARTIES (Continued)

Refer to note 18 for Trustee remuneration disclosures.

Transaction	Nature of transactions and terms and conditions thereof
Gross contributions received	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 third parties.
Claims incurred	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 as applicable to third parties.

	2015	2014
	R '000	R '000
Parties with significant influence over the Scheme, but not control		
Statement of Comprehensive Income		
Administration fees	813,343	754,403
Managed care fees (including Strategic managed care)	638,818	621,366
Actuarial fees	5,669	7,710
Government Grant income	-	52,071
Trade and other payables		
Administration fees due	71,914	63,164
Managed care fees due	56,291	54,992
Trade and other receivables		
Government Grant receivable	-	254,164

Terms and conditions of the administration agreement

The administration agreements are aligned to the rules of the Scheme and in accordance with Trustee requirements. Medscheme Health Risk Solutions (Pty) Ltd is responsible for premiums and debt collections. Collaborate Pty (Ltd) is responsible for correspondence services. Metropolitan Health Corporate (Pty) Ltd (MHC) is responsible for rendering administration services with regards to membership and claims. These contracts are renewable annually. The Scheme has the right to terminate the agreements on 90 days' notice.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

Administration fees are calculated on an arm's length basis on the number of members in good standing for the month. The outstanding balance bears no interest and is settled within 7 days.

Terms and conditions of the managed care agreements

The Scheme has entered into managed care agreements in order to manage the costs of delivering healthcare services to its members while ensuring the highest quality of care.

The services covered by these agreements include:

Service	Provider 2015	Provider 2014
Chronic medicine management services	Universal Care (Pty) Ltd	Universal Care (Pty) Ltd
Dental managed care	Prime Cure Health (Pty) Ltd	Prime Cure Health (Pty) Ltd
Healthcare networks	General Practitioner networks	General Practitioner networks
HIV disease management services	Prime Cure Health (Pty) Ltd	Prime Cure Health (Pty) Ltd
Managed health care services	Medscheme Holdings (Pty) Ltd	Medscheme Holdings (Pty) Ltd
Maternity programme services	Healthi Choices (Pty) Ltd	Healthi Choices (Pty) Ltd
Emergency medical dispatch services	Europ Assist	Europ Assist
Pharmaceutical benefit management services	MyCare (Pty) Ltd	Metropolitan Health Risk Management (Pty) Ltd
Telemarketing services	Teledirect (Pty) Ltd	Teledirect (Pty) Ltd
Health and wellness services	Pinnacle Health Solutions (Pty) Ltd	Pinnacle Health Solutions (Pty) Ltd

All contracts are tendered for a maximum contract period of 3 to 5 years. The Scheme has the right to terminate the agreements on 90 days' notice. In respect of hospital pre-authorisation and HIV and disease management, managed care fees are calculated based on the number of members in good standing for the month. Managed care fees for pharmaceutical benefit management are calculated on the basis of per member in good standing per month. The outstanding balance bears no interest and is settled within 7 days.

Terms and conditions of the Government Grant

National Treasury awarded an amount of R600 million over a maximum period of four years commencing in 2012 to eliminate the significant financial impact experienced with the transfer of the pre-1992 state pensioners from Medihelp to the Scheme during April 2012 and for future streamlining of medical provisioning by National Treasury, particularly in the public sector.

The government grant is recognised to the extent that the expenditure, for which the grant was intended, is incurred during the year.



Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

28 INSURANCE RISK MANAGEMENT
Risk management objectives and policies for mitigating insurance risk

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

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 as well as monitoring of emerging issues

The Scheme uses several methods to assess and monitor insurance risk exposure 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 Scheme uses the average age per member and claims per category of benefits to analyse its insurance risk. Income bands and geographical spread are not good indicators as the Scheme's risk is not concentrated in a specific income band or

geographical location. Analyses based on the ageing of members indicate specific risks and behaviours that result in increased claims and these can be further analysed in different categories to inform the Scheme's interventions of which managed care is key.

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

The table on page 37 summarises the concentration of risk, with reference to the carrying amount of the insurance claims incurred (before and after risk transfer arrangements), by age group and in relation to the type of cover/benefit provided where:

- Hospital benefits cover all costs incurred by members, while they are in hospital to receive pre authorised treatment for certain medical conditions.
- Specialist benefits cover the cost of all visits by members to specialists and of the out of hospital procedures performed by specialists. Specialist benefits also include radiology and pathology benefits provided to members.
- Medicine benefits cover the cost of all medicines prescribed to members.
- General Practitioner and Optometry benefits cover the cost of all visits by members to these practitioners and the procedures performed by them, up to a prescribed annual limit per member.

Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

28 INSURANCE RISK MANAGEMENT (Continued)

The Scheme profiles members' risk exposure by using their age. Of the various other indicators available, age provides a better indication of who is most likely to claim.

Insurance Age Grouping (in years)	Hospitals		Specialists		Medicines		General Practitioners		Optometry		Other		TOTAL	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<26	127,909	1,979,398	73,138	1,178,760	23,173	823,245	29,177	639,367	6,373	134,793	23,910	376,197	283,680	5,131,760
26 - 35	1,777,092	1,156,291	1,057,377	745,011	485,357	443,938	456,850	285,347	80,717	81,200	456,911	298,737	4,314,304	3,010,524
36 - 50	3,915,856	2,252,784	2,627,142	1,650,786	1,654,062	1,314,973	1,101,653	562,455	251,964	190,421	1,234,490	727,726	10,785,167	6,699,145
51 - 65	2,648,794	2,059,443	1,778,326	1,386,038	1,167,320	1,055,928	569,721	334,604	158,130	135,690	804,698	617,588	7,126,989	5,589,291
>65	1,254,456	1,784,803	772,604	1,007,877	486,237	596,493	116,414	131,253	32,568	41,215	306,897	454,763	2,969,176	4,016,404
	9,724,107	9,232,719	6,308,587	5,968,472	3,816,149	4,234,577	2,273,815	1,953,026	529,752	583,319	2,826,906	2,475,011	25,479,316	24,447,124

The information presented in this table is based on claims with a service date during the relevant year.

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 reporting of claims by age group is impacted by members who join and leave in the same month.

Claims development

Claims development tables are not presented since the uncertainty regarding the amount and timing of claim payments is typically resolved within one year and the majority of cases within four months. At year end, a provision is made of those claims outstanding that are not yet reported at that date. Details regarding the subsequent claim development in respect thereof have been disclosed in note 10 and Z4.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

29 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

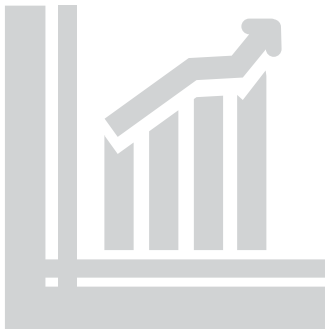
The Scheme's activities expose it to credit risk, liquidity risk and market risk, including the effects of interest rate changes. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments that the Scheme holds to meet its obligation to its members.

The Board of Trustees has overall responsibility for the establishment and oversight of the Scheme's risk management framework.

The Scheme manages the financial risks as follows:

- The Investment Committee, a committee of the Board of Trustees, determines, recommends, implements and maintains investment policies and procedures. The Investment Committee advises the Board of Trustees on the strategic and operating matters in respect of the investment of Scheme funds and meets at least quarterly.
- The Scheme has appointed reputable external asset managers to manage its investments and their performance is monitored regularly.
- An external asset consulting company has been appointed to assist in formulating the investment strategy and to provide ongoing reporting and monitoring of the asset managers.

Risk management and investment decisions are carried out by the executive management, under the guidance of and policies approved by the Board of Trustees. The Board of Trustees approves all these written policies and there has been no change in these policies from previous financial years.



Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

29 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

Market risk

Market risk is the risk that changes in market variables will affect the Scheme's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on investment.

The table summarises the Scheme's financial instrument exposure to market risk as at 31 December 2015 and excludes trade and other receivables and trade and other payables as they are not exposed to currency risk, price risk and interest rate risk.

As at 31 December 2015	Total value	Currency risk	Price risk	Interest rate risk
R '000				
Cash and cash equivalents	3,405,171	-	-	3,405,171
Financial assets at fair value through profit or loss	447,076	24,416	159,357	263,303
Equities	85,977	-	85,977	-
Local bonds	73,380	-	73,380	-
Local money markets	263,303	-	-	263,303
Foreign money markets	9,447	9,447	-	-
Foreign bonds	14,969	14,969	-	-
	3,852,247	24,416	159,357	3,668,474
As at 31 December 2014	Total value	Currency risk	Price risk	Interest rate risk
R '000				
Cash and cash equivalents	3,431,358	-	-	3,431,358
	3,431,358	-	-	3,431,358



Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

29 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

Interest rate risk

The Scheme is exposed to interest rate risk as it places funds in fixed accounts, call accounts and money market instruments. This risk is managed by maintaining an appropriate mix between the Scheme's money market portfolio, fixed and call account investments as guided by the investment policy

Cash and cash equivalents comprise fixed deposits held for a period of up to 12 months, deposits held on call with banks, cash on hand and other short term liquid investments. These fixed deposits are readily convertible, within a 3 month period, to a known amount of cash and are subject to insignificant risk of change in value. Cash and cash equivalents are classified as loans and receivables.

The table summarises the Scheme's total exposure to interest rate risks as at 31 December. Included in the table are the Scheme's investments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at 31 December 2015	Up to 3 months	3 - 12 months	More than 12 months	Total
R '000				
Cash and cash equivalents	3,240,171	165,000	-	3,405,171
Financial assets at fair value through profit or loss				
Local money markets	56,300	10,000	197,003	263,303
	3,296,471	175,000	197,003	3,668,474
As at 31 December 2014	Up to 3 months	3 - 12 months	More than 12 months	Total
Cash and cash equivalents	2,681,358	750,000	-	3,431,358
	2,681,358	750,000	-	3,431,358

The average effective interest rates for the year ended 31 December were as follows:

	2015	2014
Current accounts	4.75%	4.25%
Call accounts	5.53%	5.98%
Fixed deposits	6.47%	6.27%
Money market instruments carried at fair value through profit or loss	7.28%	N/A

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

29 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

Interest rate risk sensitivity analysis

The information below illustrates the impact that the fluctuation in investment income would have on interest income for the period and on the cash and cash equivalent balance. A rate of 0.50% interest rate variance has been used to illustrate the sensitivity.

Based on past experience and a reasonable possible change in interest rate within the life of the investment, the rate of 0.50% is considered appropriate in measuring the sensitivity of the Scheme's interest bearing instruments. The Scheme's investments are short term in nature with a maximum investment period of twelve months permitted. This sensitivity analysis assumes that all other variables remain constant.

At 31 December 2015, if interest rates had been 50 basis points higher with all other variables held constant, the surplus for the year and accumulated funds would have been R20.51 million higher (2014: deficit would have been R17.55 million lower).

At 31 December 2015, if interest rates had been 50 basis points lower with all other variables held constant, the surplus for the year and accumulated funds would have been R20.51 million lower (2014: deficit would have been R17.55 million higher).

Currency risk

The Scheme operates in South Africa and its cash flows are denominated in South African Rand. However through its investments, the Scheme is exposed to a direct currency risk.

For purpose of seeking investment diversification, the Scheme has invested 5.46% (2014: 0%) of its financial assets at fair value through profit or loss in offshore bond and cash portfolios. At 31 December 2015 this equated to R24.42 million (2014: R0 million).

The fair value of these contracts has been included in financial assets. Gains and losses on these arrangements are included in the surplus.



Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

29 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

Currency risk sensitivity analysis

Based on past experience and a reasonable possible change in currency, 10% and 15% change in currency is considered appropriate in measuring the Scheme's currency risk sensitivity. A 10% depreciation in the Rand would result in a gain of R0.85 million and a 15% depreciation in the Rand would result in a gain of R1.29 million. A 10% appreciation in the Rand would result in a loss of R0.82 million and a 15% appreciation in the Rand would result in a loss of R1.29 million. This impact would be recognised in the surplus and accumulated funds. The sensitivity is based on the assumption that the Rand has strengthened or weakened against the US Dollar by 10% or 15% considered as the reasonable possible change, with all other variables held constant.

The following US Dollar exchange rate was applied.

	2015	2014
Average rate	12.74	N/A
Year-end closing rate	15.48	N/A

Price risk

The Scheme is exposed to equity securities price risk due to equity investments held by the Scheme that are classified at fair value through profit and loss. The Scheme is indirectly exposed to equity risk through its investments in listed equities. The value of the equity investments was R85.98 million (2014: R0 million)

The Scheme manages the price risk arising from investments in equity securities, through the diversification of its investment portfolios.

Diversification of the portfolios is performed by asset managers in accordance with the mandate set by the Scheme.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

29 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

Equity price risk sensitivity analysis

Based on past experience and a reasonable possible change in equity prices, 10% and 15% change in equity prices is considered appropriate in measuring the Scheme's equity price risk sensitivity. A 10% increase in the price of equities within the equity portfolios would result in a gain of R11.88 million and a 15% increase would result in a gain of R17.90 million. A 10% decrease in the price would result in a loss of R11.93 million and a decrease of 15% would result in a loss of R17.88 million. This impact would be recognised in the surplus and accumulated funds. The sensitivity is based on the assumption that equity prices had increased or decreased by 10% or 15% considered as the reasonable possible change, with all other variables held constant.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. The availability of liquid cash holdings positions with various financial institutions ensures that the Scheme has the ability to fund its day to day operations. The Scheme manages liquidity risk by monitoring forecast cash flows and ensuring that adequate reserves are maintained. This approach ensures that the Scheme will have sufficient liquidity to meet its obligations when due, under both normal and stressed market conditions, without incurring losses that would threaten the Scheme's going concern status. The Scheme's available funds were invested in cash products to ensure that the Scheme can meet its short term obligations. The table below reflects the Scheme's liquidity requirements to meet its financial obligations.





Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

29 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)
At 31 December 2015

Category	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Over 1 year	Total
R '000					
Insurance liabilities:					
Outstanding claims provision	688,536	302,490	9,774	-	1,000,800
Non-derivative financial liabilities:					
Amounts owing to members and providers	-	-	103,376	-	103,376
Claims reported not yet paid	199,678	-	-	-	199,678
Sundry payables and accrued expenses	195,464	-	-	-	195,464
Unallocated deposits	-	-	306	-	306
Personal medical savings accounts trust liability	493,715	-	-	-	493,715
Total liabilities	1,577,393	302,490	113,456	-	1,993,339
Financial assets at fair value through profit or loss	65,747	-	21,926	359,403	447,076
Scheme monies invested	2,600,171	640,000	165,000	-	3,405,171
Personal medical savings account trust monies invested	459,251	-	-	-	459,251
Available cash and investments	3,125,169	640,000	186,926	359,403	4,311,498
Excess liquidity	1,547,776	337,510	73,470	359,403	2,318,159

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

29 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

Liquidity risk (continued)

At 31 December 2014

Category	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Over 1 year	Total
R '000					
Insurance liabilities:					
Outstanding claims provision	688,536	198,994	59,580	-	947,110
Non-derivative financial liabilities:					
Amounts owing to members and providers	-	-	66,930	-	66,930
Sundry payables and accrued expenses	166,638	-	-	-	166,638
Unallocated deposits	-	-	405	-	405
Personal medical savings accounts trust liability	380,901	-	-	-	380,901
Total liabilities	1,236,075	198,994	126,915	-	1,561,984
Scheme monies invested	2,171,358	510,000	750,000	-	3,431,358
Personal medical savings account trust monies invested	352,133	-	-	-	352,133
Available cash and investments	2,523,491	510,000	750,000	-	3,783,491
Excess liquidity	1,287,416	311,006	623,085	-	2,221,507

Personal medical savings account trust monies managed by the Scheme on behalf of its members (notes 8 and 9) is included in the liquidity risk calculation as suggested in the Medical Schemes Accounting Guide. These balances are ring fenced in terms of Circular 38 of 2011.



Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

29 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

Credit risk

Credit risk is the risk of financial loss to the Scheme, if a counterparty to a financial instrument fails to meet its contractual obligations. Key areas where the Scheme is exposed to credit risk are:

- Financial assets at fair value through profit or loss
- Cash and cash equivalents
- Trade and other receivables

The Scheme only deposits cash with registered banks per the South African Reserve Bank's Supervision Unit with high quality credit standing and limits the exposure to any one financial institution.

Financial assets are valued at fair value through profit or loss comprise money market and bond instruments entered into to fund the obligations arising from its insurance contracts and to invest surplus funds to maintain the statutory solvency requirement. The Scheme is exposed to the issuer's credit standing on these instruments. Exposure to credit risk is monitored and minimum credit ratings for these investments are set. Reputable asset managers have been appointed to manage these instruments.



Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

	2015	2014
	R'000	R'000
Cash and cash equivalents		
ABSA Bank	715,000	570,000
First National Bank	262,440	85,931
Investec Bank	689,165	640,354
Nedbank	695,000	650,000
Standard Bank	-	200,000
South African Reserve Bank	693,566	655,073
Rand Merchant Bank	350,000	630,000
	3,405,171	3,431,358
Investec Bank (Personal medical savings account)	459,251	352,133
Ratings of Banks invested with:		
ABSA Bank	BBB	BBB
First National Bank	BBB-	BBB
Investec Bank	BBB-	BBB
Nedbank	BBB-	BBB
Standard Bank	BBB-	BBB
South African Reserve Bank	A	A
Rand Merchant Bank	BBB-	BBB

The maximum exposure to credit risk for financial assets at year end were as follows:

Financial assets at fair value through profit or loss	361,099	-
Loans and receivables (Cash and cash equivalents)	3,405,171	3,431,358
Loans and receivables (Personal medical savings account)	459,251	352,133
Loans and receivables (Trade and other receivables)	318,107	173,452
Loans and receivables (Government grant)	-	254,165



Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

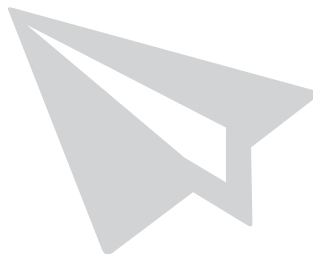
29 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

Credit risk (continued)

The amounts represented in the Statement of Financial Position for trade and other receivables 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. The ageing of insurance receivables at year end was:

As at 31 December 2015	Not past due, not impaired	Past due, not impaired	Impaired	Total
R '000				
Contribution debtors	190,898	3,313	11,124	205,335
Receivables from members and providers	40,604	12,268	13,588	66,460
Sundry accounts receivable	31,870	-	-	31,870
As at 31 December 2014	Not past due, not impaired	Past due, not impaired	Impaired	Total
R '000				
Contribution debtors	110,196	10,457	7,780	128,433
Receivables from members and providers	4,556	13,363	16,588	34,508
Sundry accounts receivable	3,263	-	-	3,263



Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015
Notes to the Annual Financial Statements (continued)

Credit risk (continued)

The table below provides an age analysis of the receivables that are not yet impaired.

Amounts outstanding for 30 days are not impaired, as they are within the normal expected recovery period. The credit quality of financial assets that are neither past due nor impaired has been assessed on the basis of historical information. This information indicated that the majority of debt is settled just after year end and within the rules of the Scheme. The amounts not past due have been collected shortly after year end.

The carrying amount of these financial instruments best represents the maximum exposure to credit risk.

As at 31 December 2015 R '000	3 - 30 days	31 - 60 days	61 - 90 days	Total
Contribution debtors	190,898	1,983	1,330	194,211
Receivables from members and providers	40,604	10,049	2,219	52,872
As at 31 December 2014 R '000	3 - 30 days	31 - 60 days	61 - 90 days	Total
Contribution debtors	114,615	3,108	2,929	120,652
Receivables from members and providers	10,109	2,228	5,583	17,920

Management information reported to the Scheme includes details of allowances for impairments on receivables. The table below provides an analysis of receivables that were impaired.

Receivables impaired:	2015 R '000	2014 R '000
Contribution debtors		
120 days	11,124	7,780
Received from members and providers		
120 days	13,588	16,588
Total	24,712	24,368



Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

29 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

Credit risk (continued)

The amounts represented in the Statement of Financial Position are net of impairment receivables, estimated by the Scheme's management based on outcomes of recovery processes, prior experience and the current economic environment.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Scheme is the current closing price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. Specific valuation techniques used to value financial instruments include quoted market prices or dealer quotes for similar instruments.

The carrying value, less impairment provision of trade receivables, and payables are assumed to approximate their fair values due to their short-term nature.

The members' Personal Medical Savings Accounts contain a demand feature. In terms of Regulation 10 of the Act, any credit balance on a member's Personal Medical Savings Account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit plan, and enrolls in another benefit plan or medical scheme without a savings account or does not enrol in another medical scheme. Therefore the carrying values of the members' Personal Medical Savings Accounts are deemed to be equal to their fair values, which is the amount payable on demand.



Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

Fair value of financial assets by hierarchy level

At 31 December 2015	Carrying amount	Total	Level 1	Level 2	Level 3
R '000					
Cash and cash equivalents	3,405,171	3,405,171	-	3,405,171	-
Financial assets at fair value through profit or loss	447,076	447,076	85,977	361,099	-
Equities	85,977	85,977	85,977	-	-
Local bonds	73,380	73,380	-	73,380	-
Local money markets	263,303	263,303	-	263,303	-
Foreign money markets	9,447	9,447	-	9,447	-
Foreign bonds	14,969	14,969	-	14,969	-
	3,852,247	3,852,247	85,977	3,766,270	-

At 31 December 2014	Carrying amount	Total	Level 1	Level 2	Level 3
R '000					
Cash and cash equivalents	3,431,358	3,431,358	-	3,431,358	-
	3,431,358	3,431,358	-	3,431,358	-

The fair value assets are classified using a fair value hierarchy that reflects the significance of the inputs used in determining the measurements.

The fair value hierarchy has the following levels:

Level 1 – These are assets measured using quoted prices in an active market

Level 2 – These are assets measured using inputs other than quoted prices included within Level 1, that are either directly or indirectly observable.

Level 3 – These are assets measured using inputs that are not based on observable market data.



Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

29 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

Capital adequacy risk

Capital adequacy risk is the risk that there may be insufficient reserves to provide for adverse variations in actual future benefit liabilities. In terms of Regulation 29(3)A of the Medical Schemes Act, a medical scheme registered for the first time must maintain a solvency level of no less than:

First year of operations	10.00%
Second year of operations	13.50%
Third year of operations	17.50%
Fourth year of operations	22.00%
Fifth year of operations	25.00%

The Registrar of Medical Schemes, in terms of the business plan submitted by the Scheme in 2013 and 2015, agreed to revise the required solvency levels which will apply to the Scheme for each related year of operation:

	Actual levels	CMS approved levels
31 December 2012	7.91%	7.66%
31 December 2013	11.66%	8.00%
31 December 2014	10.02%	8.90%
31 December 2015	9.46%	10.10%

Solvency requirements approved by CMS for the following years are 2016: 9.90%, 2017: 13.30%, 2018: 16.70%, 2019: 21.20% and 2020: 26.90%.

The Scheme monitors and manages the capital adequacy risk through the following means:

- The capital adequacy risk is documented on the risk register that is regularly reviewed by the Board of Trustees.
- Scheme management reviews the monthly management accounts where the Scheme's financial performance is monitored.
- Monthly management accounts and the Scheme's quarterly performance reports are submitted to and discussed with the Council for Medical Schemes.
- The annual budgeting process, long term projections and planning allows the Scheme to review its capital adequacy and solvency levels to ensure continuity of operations and sustainability.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

30 EVENTS AFTER THE REPORTING PERIOD

There are no facts or circumstances of a material nature which have occurred between the reporting date and the date of this report.

30 GUARANTEES AND COMMITMENTS

	2015	2014
	R'000	R'000
The Scheme held guarantees in favour of the following institutions during the year:		
Council for Medical Schemes	2,500	2,500
South African Post Office	5,000	5,000
	<u>7,500</u>	<u>7,500</u>

The guarantee in favour of the Council for Medical Schemes has been issued in terms of Section 24(5) of the Medical Schemes Act, 1998. The Act prescribes that the Registrar may demand from the person who manages the business of a medical scheme such financial guarantees as will in the opinion of the Council ensure the financial stability of the medical scheme.

The guarantee in favour of the South African Post Office allows the Scheme to transact directly with the service provider for the provision of postal services, rather than procuring these services on an agency basis.





Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

32 REGULATORY NON-COMPLIANCE

To the best of the Scheme's knowledge, the compliance matters listed below cover all of the non-compliance matters for the 2015 financial year.

Late paying employer groups

In terms of Rule 13.2 of GEMS' Scheme Rules and Section 26(7) of the Medical Schemes Act members' contributions are due monthly in arrears and payable by no later than the third day of each month. During the period under review, certain employer groups paid over contributions on behalf of their members after the third day of the month. Late payment may result in a loss of interest earned for the Scheme; however this is not significant due to the short duration of the contributions being outstanding. Scheme Management engaged with the employer groups concerned to ascertain the reasons for the late payment of contributions and to highlight the impact of this practice on members of the Scheme. The Council for Medical Schemes is informed quarterly of any late payers and the Auditor General is informed annually. At year end there were two late paying employer groups. Subsequently these amounts have been received.

Minimum accumulated funds

The Scheme's minimum accumulated funds ratio throughout the year was below the required target of 25% as provided for in the Act and below what was subsequently approved by the Registrar on 6 August 2013. In terms of Regulation 29(4) of the Medical Schemes Act of 1998, a medical scheme that for a period of 90 days fails to comply with sub regulations 29(2), (3) or (3A) must notify the regulator of such non-compliance. Reserves below

the required 25% prescribed by the Act may be an indication that a Medical Scheme may have solvency concerns which would impact on the Scheme's payment of claims. The Scheme is, however, accumulating funds in accordance with a business plan approved by the Registrar. The Registrar was notified of the Scheme's performance through the quarterly performance reports.

The Scheme's solvency level at 31 December 2015 was 9.46% (2014: 10.02%) which was below the revised solvency level prescribed by the Registrar of Medical Schemes of 10.10% (2014: 8.90%). The factors influencing the reserves are described in detail in the Board of Trustees report.

Benefit option

The Scheme's Emerald and Onyx options did not meet the self sufficiency requirement in terms of Section 33(2) of the Medical Schemes Act. Loss making options adversely affect the financial performance of the Scheme and the solvency ratio. This was primarily as a result of the 2015 claims experience (Emerald claims ratio: 93% and Onyx claims ratio: 125%). The claims on the Onyx option were driven by the option's older demographic profile, which resulted in higher claims being incurred relating to chronic and lifestyle related diseases. The migration of the pre-1992 pensioners to this option in prior years also resulted in the financial performance being adversely affected during the financial year. The Council for Medical Schemes was informed of the options' performance during 2015 through the quarterly reporting.

Government Employees Medical Scheme

Annual Financial Statements for the year ended 31 December 2015

Notes to the Annual Financial Statements (continued)

32 REGULATORY NON-COMPLIANCE (continued)

Claims settled after 30 days

In terms of Section 59(2) of the Medical Schemes Act, the Scheme shall, in the case where an account has been rendered, pay to a member or a supplier of service, any benefit owing to that member or supplier of service within 30 days after the day on which the claim in respect of such benefit was received by the Scheme.

During the financial year, there were instances that were identified where the above regulation had not been complied with. Additional controls have been put in place to mitigate the risk of non-compliance.

Breach of Annexure B limit

Regulation 30 and Annexure B of the Medical Schemes Act stipulates that a medical scheme may not have more than 35% of its qualifying assets in a particular institution. On 19 January 2015, the one bank experienced problems with its mainframe and consequently could not transfer funds. This resulted in a breach of the Annexure B limit by 2% which also led to a delay in the settlement of claims. The necessary corrective steps were taken and the bank also issued a letter of apology.

Investment in administrators

In terms of Section 35(8)(c) of the Medical Schemes Act Schemes, the Scheme is prohibited from holding shares of medical schemes administrators. As at 31 December 2015, through its investment portfolio with Prudential Investment Managers (Pty) Ltd, the Scheme held shares in the administrators, Liberty Holdings, amounting to R287 950 and Sanlam Ltd, amounting to R65 686. The Scheme is therefore in contravention of the Act and the regulations thereto.

The Scheme has applied and received an exemption in December 2015 from Council of Medical Schemes from complying with Section 35(8)(c) in so far as it relates to investments placed with Asset Managers who invest on behalf of the Scheme. The exemption is valid for twelve months up until 30 November 2016.