

MEDIBRIEF

SPECIAL EDITION: ANNUAL FINANCIAL STATEMENTS FOR 2015: COMMENTARY

APRIL 2016

The Board of Trustees is responsible for preparing Anglo Medical Scheme's Annual Financial Statements (AFS) in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act.

Insights from the Board

The Trustees are responsible for fairly preparing and presenting the Annual Financial Statements (AFS) of Anglo Medical Scheme. These comprise the statement of financial position as at 31 December 2015, the statements of comprehensive income, changes in funds and reserves and the statement of cash flows for the year under review. The notes to the financial statements include a summary of significant accounting policies and other explanatory notes. We believe that, in preparing the AFS, we have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates to ensure the fair presentation of the statements free from material misstatement.

In addition, the Trustees are responsible for preparing the report of the Board of Trustees, its accuracy and consistency with the AFS and ensuring that the AFS comply with the relevant legislation. The Trustees' responsibility further includes maintaining adequate accounting records and an effective system of risk management. We believe all of these tasks have been successfully undertaken in accordance with relevant internal and external controls.

Anglo Medical Scheme operates in a well-established control environment, which is comprehensively documented and regularly reviewed. This incorporates risk management and internal control procedures that are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing the business are being controlled. No event or item has come to our attention that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review.

The AFS were prepared using the going concern basis, as the Trustees have no reason to believe that the Scheme will not be a going concern in the foreseeable future, based on forecasts, actuarial calculations and available cash resources.

Anglo Medical Scheme is committed to the principles and practice of responsibility, accountability, fairness and transparency in all dealings with its stakeholders. The code of corporate practices and conduct as set out in King III on Corporate Governance has been applied, and the Scheme's external auditors have audited the AFS in terms of International Standards on Auditing.

The Annual Financial Statements of Anglo Medical Scheme were approved by the Trustees on 6 April 2016 and signed on their behalf by:

CC Elliott
Chairman

D Ghalvalas
Vice-Chairman

FK Robertson
Principal Officer

2015 HIGHLIGHTS

Contributions increased
AMS 6.5% Est. industry 9.4%

Interest earned on
Medical Savings Accounts
increased
2015 2014
R8.021m R6.461m

Average beneficiary
age marginally increased
2015 2014
42.15 41.9

Reserves stable
2015 2014
531% 531%

Number of beneficiaries
decreased
2015 2014
19 215 19 547

OUR TRUSTEES IN 2015

Member elected

DD Barber
MR Farrell (until 20/05/2015)
Dr FH Fox (from 20/05/2015)
MD Graham
S Hosking (from 20/05/2015)
PA Laubscher
CC Mckie Thompson
GJ Preston (until 20/05/2015)

Employer appointed

MA du Bois
CC Elliott (Chairman) (elected 20/05/2015)
Dr FH Fox (until 20/05/2015)
D Ghalvalas (Vice-Chairman) (elected 20/05/2015)
GAE Howell
S Mayet (resigned 03/02/2015)
DR McCallum (from 20/05/2015)
MF Welz (from 20/05/2015)

ALTERNATE TRUSTEES IN 2015

Member elected

D Abramowitz (from 20/05/2015)
P Chetty (retired 20/05/2015)
MR Farrell (from 20/05/2015)
S Hosking (until 20/05/2015)
LR Sanford (until 20/05/2015)
BI Switala (until 20/05/2015)

Employer appointed

J Liston
A Masarira (retired 20/05/2015)
NJ Mason-Gordon
DR McCallum (until 20/05/2015)
J Stanley (until 20/05/2015)
P Vatsha (until 20/05/2015)

Executive summary

In 2015, in line with the overall Scheme strategy, the Anglo Medical Scheme (AMS) continued to improve the comprehensive healthcare benefits and services offered to its members while remaining both cost effective and market competitive.

The improved value to members reflects strongly in the statement of comprehensive income where the relevant healthcare expenditure has increased significantly over the contributions received, which were increased on average by 6.5% in 2015, approximately 3% below the industry average.

The Scheme's total funds and liabilities remained constant with the previous year reflecting the general economic slowdown and the volatility of financial markets. The regulatory limitations under which medical schemes operate, prevent them from being able to take advantage of offshore opportunities. A R24 million deficit was posted for the year, however, AMS remains confident that its conservative long-term investment approach will generate the desired results to support the strategy into the foreseeable future.

2015 also saw the Board of Trustees review the Scheme's accounting policies. It was agreed that treating the accounting of inflation-linked bonds as 'held to maturity' in the AFS did not make sense, as the entire investment portfolio is managed as a single portfolio with one objective, to beat inflation by CPI + 3.5% net of fees without losing

capital value. Elsewhere the investment portfolio is consistently reported on a fair value basis, hence the statements have been restated to reflect the bonds previously held-to-maturity at fair value as reflected in the statements of financial position, comprehensive income and changes in funds and reserves and further explained in note 2 in the full set of Annual Financial Statements.

With the required minimum solvency ratio being set at 25%, the Scheme maintained a solvency margin well in excess of this figure at 531%. In the year under review, the Scheme's investment portfolio recorded positive growth, which is vital for the Scheme's long-term sustainability.

The Scheme's demographics changed slightly: it had 42 fewer active members, an increased pensioner ratio (25.4%, up from 24.9% in 2014) and an increased average beneficiary age (42.15 years, up from 41.9 years in 2014).

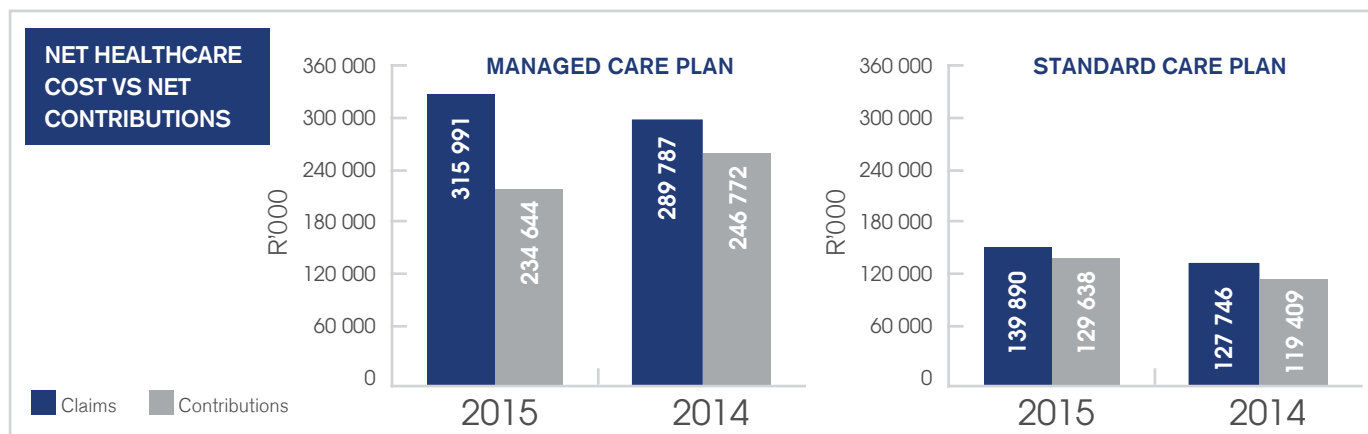
The higher pensioner ratio is attributable to Anglo American plc having internally sold a number of its subsidiaries, resulting in the loss of active employees and the retention of pensioners. The consequent high pensioner ratio contributes to claims exceeding contributions, which the Scheme funds from its reserves, established for this purpose.

Your plan's performance in 2015

Overall, the Scheme's three plans performed reasonably well, showing a small deficit of R28.79 million as compared to the net surplus of R171.88 million over the previous period. Standard Care Plan and Value Care Plan both posted surpluses, R13.41 million and 3.56 million respectively, whereas Managed Care Plan ended the year on a deficit of R45.76 million. This was in part driven by a 3% increase in the number of hospital admissions, but more significantly the increase in severity of the conditions treated, resulting in an 8% increase in the total cost of hospital claims.

The overall cost of medicines increased as a result of the higher than previously experienced annual increase in the regulated single exit price (SEP) coupled with an increase in utilisation.

The main cost driver was the 11.6% increase in the treatment of chronic conditions, measured as the cost per life per month. The proportion of members using chronic medications increased as a direct result of the loss of the younger active members from the Scheme during the period under review.



While not impacting the Scheme's reserves, it is worth noting that the improved benefit to MCP members of the increased Medical Savings Account allocation from 21% to 25% in 2015 resulted in a significant 12.68% increase in medicine pay-outs.

Member Medical Saving Accounts: 2014 vs 2015

There was an increase in the interest earned on members' savings accounts, from R6.5 million in 2014 to R8 million, as a result of the increase in the total savings balances at the end of 2015 – from R115 million to R133.7 million.

Our membership

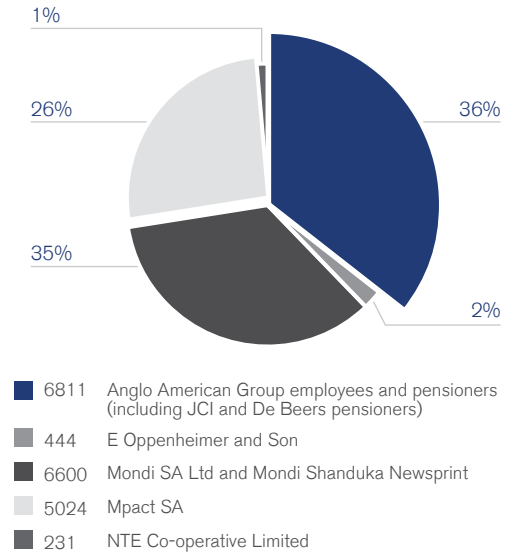
In 2015 the Scheme provided benefits to slightly fewer members (9 148, down from 9 190 in 2014) and proportionately fewer beneficiaries (19 215, down from 19 547 in 2014). As in the previous year, the majority of members and dependants were women (51.13%). Membership was concentrated in Gauteng (40%) followed by KwaZulu-Natal (37%) and Western Cape (10%). The balance of membership was spread across South Africa.

The Scheme looked a little different in 2015:

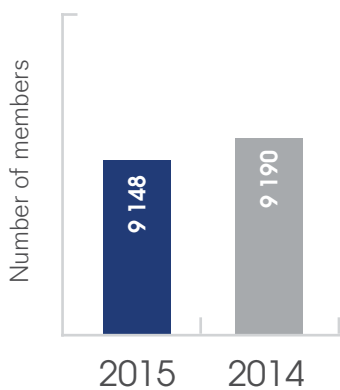
- There were 42 fewer active members
- The beneficiary pensioner ratio increased to 25.4% (2014: 24.9%)
- The beneficiary average age increased to 42.15 (2014: 41.9 years)
- Managed Care Plan (MCP) membership decreased by 4%
- Standard Care Plan (SCP) membership increased by 3%
- Value Care Plan (VCP) membership increased by 26%

Both, the funds per member and the funds per beneficiary remained stable. Funds per member 2015: R304 070 (2014: R305 323) and per beneficiary R144 763 (2014:R143 547).

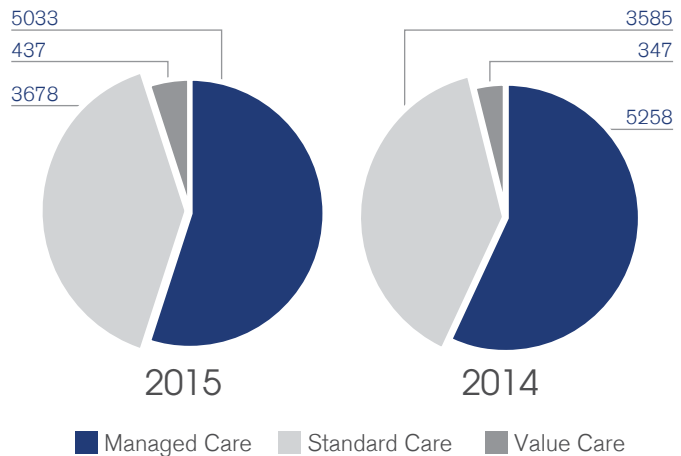
MEMBERSHIP BY EMPLOYER



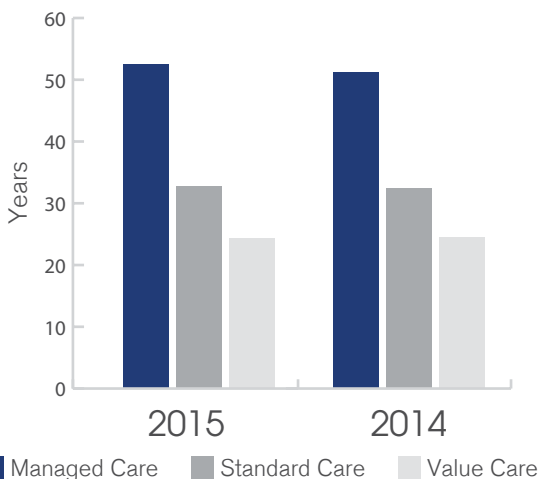
CHANGE IN TOTAL MEMBERSHIP



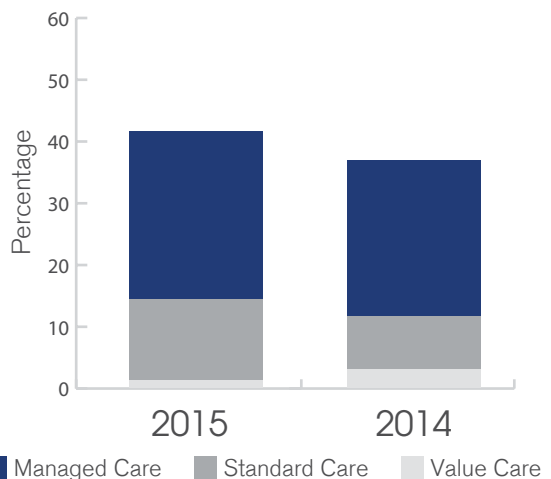
CHANGE IN MEMBERSHIP BY PLAN



AVERAGE AGE OF BENEFICIARIES

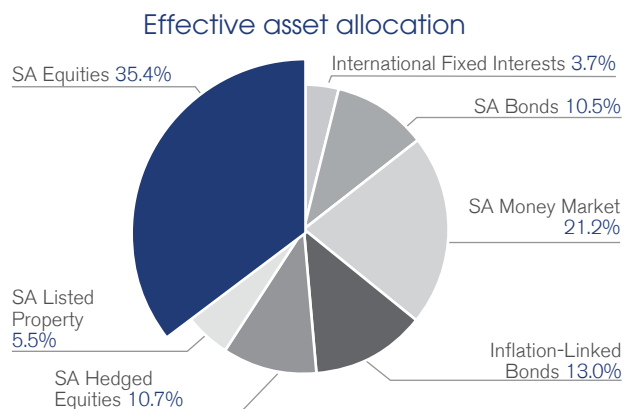
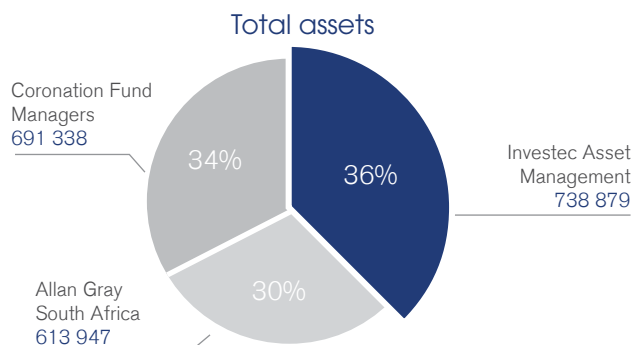


PENSIONER RATIO (BENEFICIARIES >65)



Accumulated funds

	2015 R'000	2014 R'000
Total members' funds per Statement of Financial Position	2 781 628	2 805 922
Less: cumulative unrealised net gain on measurement of investments to fair value	(409 951)	(463 393)
Accumulated funds per Regulation 29 of the Act	2 371 677	2 342 529
Gross contribution income	446 855	441 202
Accumulated funds ratio per Regulation 29 (including unrealised gains)	622.5%	636.0%
Accumulated funds ratio per Regulation 29 (excluding unrealised gains)	530.7%	530.9%
Minimum ratio required by Regulation 29 of the Act	25.0%	25.0%



Statement of changes in accumulated funds and reserves

	Accumulated funds R'000
Balance as at 1 January 2014	2 625 288
Total comprehensive income for the year ended 2014	180 634
Balance as at 31 December 2014	2 805 922
Total comprehensive deficit for the year ended 2015	(24 294)
Balance as at 31 December 2015	2 781 628

Current liabilities

As of 31 December 2015, the Scheme held R2.78 billion (2014: R2.81 billion) of members' funds. Using the calculation method stipulated by the Council for Medical Schemes, this represented an accumulated funds ratio of 531% (2014: 531%).

At this rate, the level of accumulated funds would have covered 6.1 years (2014: 6.7 years) of claims costs incurred for the year. This funding exceeds the Scheme's present needs.

Managing your investment

The Scheme's investment strategy, which was reviewed during 2015, is determined by the Board and the implementation thereof is managed by the Investment Committee. The Scheme's investment objective is to maximise the return on its investments on a long-term basis at minimal risk (subject to any constraints imposed by legislation or the Board).

The Scheme enjoys a diversified investment portfolio, investing in deposits, bonds, money market and equities managed by reputable asset managers. The Investment Committee monitors the performance of the Scheme's asset managers.

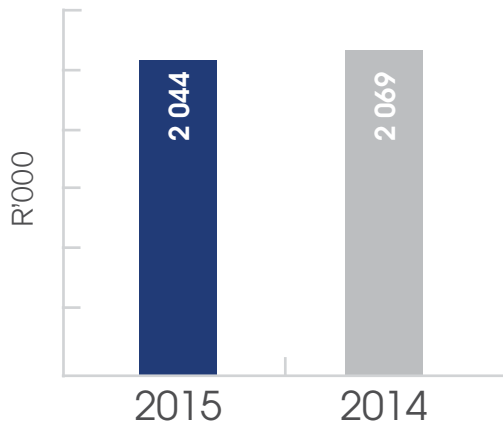
In line with legislation, the Scheme has a relatively small number of investments off-shore, and was therefore unable to take advantage of the significant rand depreciation in the period under review. In 2014, 3% of total investments and cash were invested in foreign investments.

Member savings account liabilities are ring-fenced and explicitly invested in cash. They are held by the Scheme on behalf of members.

Member medical savings liability
Investec Asset Management

Mandate
Stable money market: 100%

INVESTMENTS AT FAIR VALUE THROUGH SURPLUS OR DEFICIT



Non-healthcare costs

The sum of administration and managed care costs as a percentage of the net contributions decreased to 10.4%.

The Trustees make every effort to ensure this figure remains as close to or below 10%. The 2015 figure was lower due to the additional administration fees, paid to the previous administrator in the first quarter of 2014, for their services during the transfer of administration.

Managing risk

The primary insurance activity undertaken by the Scheme assumes the risk of paying all healthcare-related costs incurred by members in return for contributions received.

These risks relate to the cost of providing healthcare services to the Scheme members. The Scheme is also exposed to market risk through its investment activities.

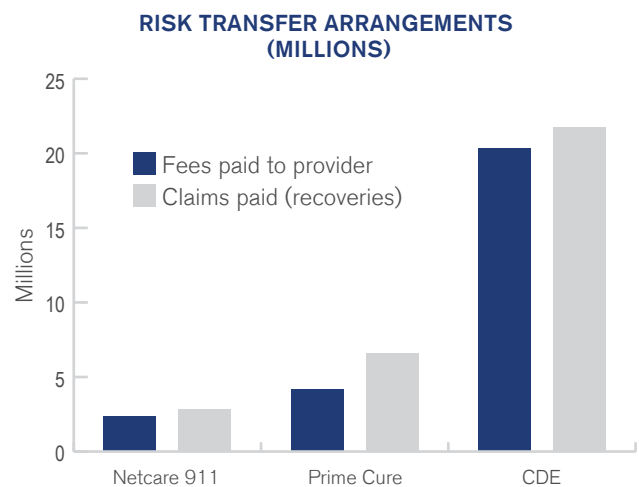
The Board of Trustees maintains a schedule of risks identified and has evaluated both the likelihood and impact of these risks. This list is reviewed on an ongoing basis and corrective action is taken as and when necessary.

Risk transfer arrangements

Risk transfer arrangements are contractual arrangements whereby a third party undertakes to indemnify the Scheme against all or part of the loss that the Scheme may incur as a result of regular operations, helping to spread the risk and minimise losses. These arrangements do not reduce the Scheme's primary obligations to its members and their dependants.

In 2015, we once again partnered with industry specialists to provide our members with access to the best available healthcare services. These included Netcare 911 (land and air ambulance services for Managed Care and Standard Care members); Prime Cure (primary healthcare services, hospital benefits and ambulance services for Value Care members); and the Centre for Diabetes and Endocrinology (management and treatment of type 1 and type 2 diabetes, including diabetes-related hospital costs for Managed Care and Standard Care members).

The total net benefit of these arrangements in 2015 resulted in a surplus of R2.892 million (2014: R1.029 million deficit).



Scheme reserves: long-term strategy

The Scheme's significantly higher pensioner ratio than the industry average (25.4% compared to 7.3% - CMS report September 2015) increases the expected overall cost of sustainably providing adequate healthcare benefits at market-related rates to our members in to the future.

The Scheme entered into arrangements with the participating employer groups for grants to be made from time to time, at the employer's discretion, to meet the ongoing and the future cost of providing benefits for the large number of pensioner members. These grants are held in the Scheme's reserves.

Annual actuarial valuations are conducted to calculate the funding needed to provide for the shortfall between the budgeted risk contribution income and the actual claims incurred, with the shortfall being funded from reserves.

The strategy is that the investment returns should be sufficient to meet the current shortfall (not achieved in 2015 due to market volatility and uncertainty) and the reserves will be used to meet the shortfall in the long term. Based on the existing Scheme demographics and the expected ageing of the membership, the results of the actuarial valuations indicate that the Scheme is appropriately funded for a period of 30 years.

The value of the Scheme's total long-term assets as at 31 December 2015 was R2.78 billion. This compares against the gross long-term liability calculated by the Scheme's consultants and actuaries of R2.19 billion (The assets required by the Scheme to carry the liability for the next 25 years).



Compliance with the Medical Schemes Act

Investment in participating employer

Section 35(8) (a) of the Medical Schemes Act 131 of 1998 states that a medical scheme shall not invest any of its assets in a participating employer.

The Scheme was exposed to participating employer shares that constituted approximately 1.1% of total assets.

The Scheme applied to the Council for Medical Schemes, and received an exemption from this section of the Medical Schemes Act.

Investment in administrator

Section 35(8) (c) of the Medical Schemes Act 131 of 1998 states that a medical scheme shall not invest any of its assets in any administrator.

The Scheme invests in pooled investment vehicles, which allow investment managers the discretion to invest in a combination of equities and bonds that will best achieve their stipulated benchmark.

The Scheme applied to the Council for Medical Schemes and received an exemption from this section of the Medical Schemes Act.

Investment limitations

Regulation 30(3) states that a medical scheme shall not invest more than 40% of its assets in local equities. The Scheme exceeded this limit during the year.

The Scheme submitted a certified statement prepared by its consultants to the Council for Medical Schemes to state that an alternative percentage of 75% should apply to the excess assets as described in Regulation 30(3).

The Trustees are of the opinion that there are no material deviations from the Act.



Balance sheet

	2015 R'000	2014 R'000 Restated
ASSETS		
Investments held at fair value through surplus or deficit	2 044 164	2 069 379
Trade and other receivables	8 929	4 272
Cash and cash equivalents	890 114	869 108
Medical Scheme funds	756 447	754 108
Medical Savings Account 'trust' funds	133 667	115 000
Total assets	2 943 207	2 942 759
FUNDS AND LIABILITIES		
Accumulated funds	2 781 628	2 805 922
Liabilities	161 579	136 837
Outstanding risk claims provision	16 982	14 211
Medical Savings Account 'trust' liability	135 816	113 947
Trade and other payables	8 781	8 679
Total funds and liabilities	2 943 207	2 942 759

Income statement

	2015 R'000	2014 R'000 Restated
Risk contribution income	369 033	369 855
Relevant healthcare expenditure	(460 000)	(420 993)
Net claims incurred	(452 925)	(410 555)
Risk claims incurred	(454 468)	(410 868)
Third party claim recoveries	1 543	313
Net income/(expense) on risk transfer arrangements	2 892	(1 029)
Risk transfer arrangement fees/ premiums paid	(26 377)	(25 761)
Recoveries from risk transfer arrangements	29 269	24 732
Managed care: management services	(9 967)	(9 409)
Gross healthcare result	(90 967)	(51 138)
Administration expenses	(28 473)	(31 251)
Net impairment gains/(losses)	32	(748)
Net healthcare result	(119 408)	(83 137)
Other income	119 133	285 834
Investment income	118 273	285 111
Medical Scheme assets	110 252	278 650
Medical Savings Account 'trust' funds	8 021	6 461
Sundry income	860	723
Other expenditure	(24 019)	(22 063)
Expenses for asset management services rendered	(15 998)	(15 602)
Interest paid on Medical Savings Accounts	(8 021)	(6 461)
Net (deficit)/surplus for the year	(24 294)	180 634
Other comprehensive income	-	-
Total comprehensive (expense)/ income for the year	(24 294)	180 634

* - Refer to note 2 in the full set of AFS for details on the restated amounts

Related party transactions

The Board of Trustees, six of whom are appointed by the participating employers and six elected by the members of the Scheme, is responsible for the proper and sound management of the Scheme.

Parties with significant influence over the Scheme

Administrator and managed care organisation Discovery Health Pty Ltd (DH) has significant influence over the Scheme, as DH participates in the Scheme's financial and operating policy decisions, but does not control the Scheme. DH provides administration and managed care services, for which it received in the current year market-related fees of R17.265 million and R8.538 million respectively (2014: R16.321 million and R8.089 million) from the Scheme. The amount owing to the administrator at year-end was R2.88 million (2014: R3.15 million).

Anglo Medical Scheme is a restricted scheme. The composition of the Board of Trustees includes employer-appointed Trustees. The participating employers' payroll systems are primarily utilised in collecting both the members' and the employers' contributions.

With regard to Trustees who were also members of the Scheme, contributions of R1.358 million (2014: R1.475) were received and claims of R1.196 million (2014: R813 256) were paid. These claims were paid in accordance with the rules of the Scheme. By year-end, the Trustees had savings account balances of R290 358 (2014: R260 738).

Remuneration of R4.688 million (2014: R4.578 million) was paid to key management personnel, including the Board of Trustees and the Principal Officer, for the attendance of meetings, holding office and disbursements.

Basis of preparation

The AFS were prepared in accordance with International Financial Reporting Standards (IFRS) and the Act, which requires additional disclosures for registered medical schemes. The financial statements were prepared in accordance with the going concern principle using the historical cost basis, except for investments classified as held-for-trading, which were carried at fair value through income or deficit.



Approval from the auditors

External auditors, KPMG, certified that our AFS accurately reflected the financial position of the Scheme, its financial performance and its cash flows as at 31 December 2015.

LOOKING FOR IN-DEPTH DETAIL?

This special edition of MediBrief is a commentary on our 2015 Annual Financial Statements. There are extensive notes in our AFS that have not been included in this edition. If you would like the full set of financials and additional notes in terms of our investment disclosures, get in touch with us:

Visit our website: www.angloms.co.za and download the full report



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