

BMW EMPLOYEES MEDICAL AID SOCIETY

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2015



BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

FINANCIAL STATEMENTS

for the year ended 31 December 2015

TRUSTEES

C Hector	Chairman - Employer Representative
C Bathauer	Vice Chairman - Employee Representative
DW Blue	Employer Representative - resigned 07 June 2015
D Radebe	Employer Representative
N Moonia	Employer Representative
W Scott	Employer Representative
F Viljoen	Employer Representative
A Kgoathe	Employee Representative
D Lee	Employee Representative
K Madumo	Employee Representative
M Molefe	Employee Alternative Representative
J Meiring	Pensioner Representative
JP Fegbeutel	Pensioner Alternative Representative
S Roodt	Co-opted Employer Representative
V Vatsha-Mahlaba	Co-opted Employer Representative

PRINCIPAL OFFICER

AR Kelbrick

AUDITOR

KPMG Inc.

ADMINISTRATOR

Discovery Health (Pty) Ltd
16 Fredman Drive
Sandton
2146

REGISTERED OFFICE

Discovery Health (Pty) Ltd
16 Fredman Drive
Sandton
2146

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BMW EMPLOYEES MEDICAL AID SOCIETY

FINANCIAL STATEMENTS

for the year ended 31 December 2015

TRUSTEES' RESPONSIBILITY AND APPROVAL

The Trustees are responsible for the preparation and fair presentation of the financial statements of BMW Employees Medical Aid Society, comprising the statement of financial position at 31 December 2015, the statements of comprehensive income, changes in funds and reserves and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act of South Africa. In addition, the Trustees are responsible for preparing the report of the Board of Trustees.

The Trustees are also responsible 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, and for maintaining adequate accounting records and an effective system of risk management.

The Trustees have made an assessment of the ability of the Scheme to continue as a going concern and have no reason to believe the Scheme will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the financial statements


The financial statements of BMW Employees Medical Aid Society, as identified in the first paragraph, were approved by the Trustees on 18 April 2016 and are signed on their behalf by:



CHAIRMAN



TRUSTEE



PRINCIPAL OFFICER

BMW EMPLOYEES MEDICAL AID SOCIETY

FINANCIAL STATEMENTS

for the year ended 31 December 2015

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

The BMW Employees Medical Aid Society (the Scheme) is committed to the principles and practice of responsibility, accountability, fairness and transparency with its dealings with all stakeholders and applies good governance principals.

The Scheme is committed to ensure compliance with recognised framework and conducting affairs in accordance with ethical values, to ensure the adoption of risk assessment, evaluation and management processes with regular monitoring of third party administrators and providers in accordance with the service level agreements. This includes evaluating the performance of the Board and of the Board sub-committees against agreed terms of reference and performance targets, establishment and management of internal controls by assessing the adequacy and effectiveness through the reports of the internal auditors and calling on expert and professional advice when required. The Trustees are either appointed by the respective employers or elected by the members of the Scheme.

BOARD OF TRUSTEES

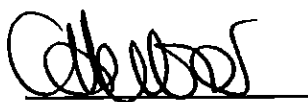
The Trustees meet regularly and monitor the performance of the Administrator and other service providers. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive.

All Trustees have access to the advice and services of the Principal Officer and consultants and, where appropriate, may seek independent professional advice at the expense of the Scheme.

INTERNAL CONTROL

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

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



CHAIRMAN



TRUSTEE



PRINCIPAL OFFICER

18 April 2016



KPMG Inc
KPMG Crescent
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Independent Auditor's Report

To the Members of the BMW Employees Medical Aid Society

Report on the Financial Statements

We have audited the financial statements of the BMW Employees Medical Aid Society as set out on pages 6 to 44 which comprise the statement of financial position at 31 December 2015, and the statements of comprehensive income, changes in funds and reserves and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Trustees' Responsibility for the Financial Statements

The scheme's trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa, and for such internal control as the trustees determine is necessary to enable the preparation of 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 about 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 BMW Employees Medical Aid Society 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.

KPMG Inc is a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG Inc is a Registered Auditor, in public practice, in terms of the Auditing Profession Act, 26 of 2005.

Registration number 1999/021543/21

Policy Board:
Chief Executive: TH Hoole

Executive Directors: M Letsitsi, SL Louw, NKS Malaba,
M Oddy, CAT Smit

Other Directors: ZA Beseti, LP Fourie, N Fubu,
AH Jaffer (Chairman of the Board), FA Karreem,
ME Magondo, F Mall, GM Pickering,
JN Pierce

The company's principal place of business is at KPMG Crescent,
85 Empire Road, Parktown, where a list of the directors' names is
available for inspection.



Report on Other Legal and Regulatory Requirements

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

KPMG Inc

A handwritten signature in black ink, appearing to read 'M Fouché', written in a cursive style.

Per M Fouché
Registered Auditor
Chartered Accountant (SA)
Director
18 April 2016

BMW EMPLOYEES MEDICAL AID SOCIETY

STATEMENT OF FINANCIAL POSITION

at 31 December 2015

	Notes	2015 R	2014 R
ASSETS			
Non-current assets			
Available-for-sale investments	2	59 201 902	67 384 295
Current assets			
Trade and other receivables	3	2 256 801	502 737
Cash and cash equivalents	4	28 429 542	20 251 296
Current, short term deposits and money market accounts		26 990 226	18 952 989
Personal medical savings account trust funds		1 439 316	1 298 307
Total assets		89 888 245	88 138 328
FUNDS AND LIABILITIES			
Members' funds			
Accumulated funds		71 558 133	64 834 013
Available-for-sale reserve		12 076 393	15 909 537
Current liabilities			
Outstanding risk claims provision	5	2 500 000	4 200 000
Personal medical savings account trust liability	6	1 528 132	1 379 947
Trade and other payables	7	2 225 587	1 814 831
Total funds and liabilities		89 888 245	88 138 328

BMW EMPLOYEES MEDICAL AID SOCIETY

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2015

	Notes	2015 R	2014 R
Risk contribution income	8	129 651 621	115 509 680
Relevant healthcare expenditure		(122 006 327)	(114 017 476)
Risk claims incurred	9	(121 786 822)	(111 769 264)
Managed care: management services	12	(2 915 785)	(2 967 342)
Claims recoveries from third parties	10	2 272 758	346 115
Net income on risk transfer arrangement		423 522	373 015
Risk transfer arrangement fees	11	(371 595)	(364 544)
Recoveries from risk transfer arrangement	11	795 117	737 559
Gross healthcare results		7 645 294	1 492 204
Administration expenditure		(6 040 233)	(6 175 836)
Other operating expenses	13	(989 499)	(572 647)
Net impairment on healthcare receivables	14	(296 795)	-
Net healthcare results		318 767	(5 256 279)
Other income		7 102 127	7 144 392
Investment income	15	7 102 127	7 000 390
Scheme		7 010 841	6 928 410
Return on personal medical savings account trust funds		91 286	71 980
Sundry income	16	-	144 002
Other expenditure		(696 774)	(603 435)
Expenses for asset management services rendered		(605 488)	(531 455)
Interest paid on personal medical savings account trust funds		(91 286)	(71 980)
Net surplus for the year		6 724 120	1 284 678
Other comprehensive income		(3 833 144)	1 934 037
Fair value adjustment on available-for-sale investments		786 823	6 172 632
Realised gain on available-for-sale investments		(4 619 967)	(4 238 595)
Total comprehensive income		2 890 976	3 218 715

BMW EMPLOYEES MEDICAL AID SOCIETY

STATEMENT OF CHANGES IN FUNDS AND RESERVES

for the year ended 31 December 2015

	Accumulated funds R	Available-for- sale reserve R	Members' funds R
Balance as at 1 January 2014	63 549 335	13 975 500	77 524 835
Total comprehensive income for the year	1 284 678	1 934 037	3 218 715
Net surplus for the year	1 284 678	-	1 284 678
Other comprehensive income	-	1 934 037	1 934 037
Changes in fair value of available-for-sale investments	-	6 172 632	6 172 632
Realised gains on disposal of available-for-sale investments		(4 238 595)	(4 238 595)
Balance as at 31 December 2014	64 834 013	15 909 537	80 743 550
Total comprehensive income for the year	6 724 120	(3 833 144)	2 890 976
Net surplus for the year	6 724 120	-	6 724 120
Other comprehensive income	-	(3 833 144)	(3 833 144)
Changes in fair value of available-for-sale investments	-	786 823	786 823
Realised gains on disposal of available-for-sale investments	-	(4 619 967)	(4 619 967)
Balance as at 31 December 2015	71 558 133	12 076 393	83 634 526

BMW EMPLOYEES MEDICAL AID SOCIETY

STATEMENT OF CASH FLOWS for the year ended 31 December 2015

	Notes	2015 R	2014 R
Cash flows from operating activities			
Cash flows from operations before working capital changes	17	10 074	(5 643 732)
Working capital changes			
- (Increase)/ decrease in trade and other receivables		(2 013 187)	2 216
- Increase in trade and other payables		410 756	643 754
- (Decrease)/ increase in outstanding risk claims provision		(1 700 000)	964 000
- Increase in medical savings account liability		148 185	99 362
Cash utilised by operations		<u>(3 144 172)</u>	<u>(3 934 400)</u>
- Income from investments		2 444 488	2 758 822
- Interest paid		(91 286)	(71 980)
Net cash flows utilised from operating activities		<u>(790 970)</u>	<u>(1 247 558)</u>
Cash flows from investing activities			
Additions to available-for-sale investments	2	(6 470 594)	(23 672 680)
Proceeds on disposal of investments	2	15 439 810	22 040 398
Net cash inflow/ (outflow) investing activities		<u>8 969 216</u>	<u>(1 632 282)</u>
Net increase/ (decrease) in cash and cash equivalents		8 178 246	(2 879 840)
Cash and cash equivalents at beginning of the year		20 251 296	23 131 136
Cash and cash equivalents at end of the year	4	<u>28 429 542</u>	<u>20 251 296</u>
Current, short term deposits and money market accounts		<u>26 990 226</u>	<u>18 952 989</u>
Personal medical savings account trust funds		<u>1 439 316</u>	<u>1 298 307</u>



NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below, and are consistent with last year unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The notes to the financial statements set out those areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the Scheme's financial statements.

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Medical Schemes Act of South Africa (the Act). The financial statements are prepared on the going concern principle using the historical cost basis, except for available-for-sale investments held at fair value.

These financial statements are presented in Rand, which is the Scheme's functional currency. Rounding of all amounts to the nearest Rand.

New standards, amendments and interpretations effective in 2015 and relevant to the Scheme

Title	Effective date - financial year commencing on
Annual improvements to IFRSs 2010 - 2012 - The improvement project has extended the definition of a "related party" per IAS 24 Related Party Disclosures to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity. There is no impact on the Scheme as transactions and balances with the Administrator have and continue to be disclosed as related party transactions and balances.	01 January 2014

New standards, amendments and interpretations not yet effective in 2015 and relevant to the Scheme:

Title	Effective date - financial year commencing on
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, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.	01 January 2018
Amendments to IAS 1 Presentation of Financial Statements - There is an emphasis on materiality. Specific single disclosures that are not material do not have to be presented - even if they are a minimum requirement of a standard.	01 January 2016

The Scheme has not yet addressed the impact of these new standards and amendments.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

1.2 Classification, recognition, presentation and derecognition of financial instruments

The Scheme recognises a financial instrument when, and only when, it becomes a party to the contractual provisions of the instrument. The Scheme has the following financial instrument categories: available-for-sale investments, loans and receivables and financial liabilities. The Scheme has grouped its financial instruments into the following classes:

- Available-for-sale investments;
- Trade and other receivables;
- Cash and cash equivalents;
- Trade and other payables; and
- Members' medical savings accounts.

The classification depends on the purpose for which the financial instruments are acquired. Management determines the classification of financial instruments at initial recognition. All purchases and sales of financial instruments are recognised on the trade date, which is the date on which the Scheme commits to purchase the financial asset or assumes the financial liability.

Offsetting financial instruments

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

Derecognition of financial assets and liabilities

The Scheme derecognises an asset when the contractual rights to the asset expire, where there is a transfer of the contractual rights that comprise the asset, or the Scheme retains the contractual rights of the asset but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

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

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

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

- (i) If the Scheme has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; and
- (ii) If the Scheme has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The Scheme derecognises a financial liability when the contractual obligations are discharged, cancelled or expire.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

1.3 Financial assets: initial and subsequent measurement

Financial instruments are recognised when the Scheme becomes a party to the contractual provisions of the instrument.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs, for instruments not at fair value through profit or loss.

Available-for-sale investments

Subsequent to initial recognition, available-for-sale investments are carried at fair value. Gains and losses arising from changes in the fair value of the available-for-sale investments are taken directly to the available-for-sale reserve. Once an available-for-sale investment is sold, the related cumulative fair value gain or loss is transferred out of the reserve to profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Scheme's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

Subsequently loans and receivables are measured at amortised cost using the effective interest method, less impairment. An impairment of trade receivables is established when there is objective evidence that the Scheme will not be able to collect all amounts due according to the original terms of the receivables. Receivables arising from healthcare insurance contracts with members are also classified in this category and are reviewed for impairment as part of the impairment review conducted per note 1.5.

Insurance receivables

Insurance receivables are carried at cost less impairment losses. Impairment losses on insurance receivables are recognised and determined in a similar manner to impairment losses on financial assets carried at amortised cost (refer to note 1.5).

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise:

- Money on call and short notice deposits; and
- Balances with banks.

Cash and cash equivalents include items held for the purpose of meeting short-term cash commitments. Cash and cash equivalents have a maturity of less than three months and an insignificant risk of changes in fair value. Subsequently, cash and cash equivalents are measured at amortised cost which approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

1.4 Financial liabilities

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity. Financial liabilities include trade payables. The Scheme is not permitted to borrow in terms of Section 35(6)(c) of the Medical Schemes Act, of South Africa. The Scheme therefore has no long-term financial liabilities.

Trade payables

Trade payables are measured initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Insurance payables

Insurance payables are measured initially at fair value (which approximates cost) and subsequently measured at amortised cost using the effective interest method.

Members' medical savings accounts: trust monies managed by the Scheme on behalf of its members

The members' 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.

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 rate method. The insurance component is recognised as an insurance liability.

Unspent savings at the 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 by the Scheme's funds, and the risk of impairment is carried by the Scheme.

The members' medical savings accounts are invested on behalf of members in call and fixed deposits with banks. These monies are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Interest paid on members' medical savings accounts

The interest paid on members' medical savings accounts is recognised in profit or loss using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

1.5 Impairment of financial assets

Financial assets carried at amortised cost

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

Objective evidence that a financial asset, or group of financial assets, is impaired includes observable data that comes to the attention of the Scheme regarding the following loss events:

- Significant financial difficulty of service provider or member debtors;
- Breach of contract, such as non-payment of member contributions when due and if these remain unpaid for extended periods;
- Default or delinquency in payments due by service providers and other debtors;
- The disappearance of an active market for that financial asset due to financial difficulties;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from other groups of Scheme assets since the initial recognition of those assets, although the decrease cannot yet be attributed to the individual financial assets in the Scheme;
- Adverse changes in the payment status of members of the Scheme; or
- National or local economic conditions that correlate with non-payment of debtor contributions.

The Scheme first assesses whether objective evidence of impairment exists, individually for financial assets that are individually significant, such as service provider debtors. In the case of assets which are not individually significant, such as contribution debtors, financial assets are grouped on the basis of similar credit characteristics, such as asset type and past-due status. These characteristics are used in the estimation of future cash flows recoverable.

If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised through profit or loss.

An allowance account is used when the carrying amount of impaired assets is not reduced directly. Such impairment losses are recognised in profit or loss. In other instances, the carrying value of the asset is reduced where the amounts are proved to be irrecoverable.

When a receivable is irrecoverable, it is written off against the related impairment in the allowance account. Such receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

1.6 Provisions

The Scheme recognises liabilities, including provisions when:

- It has a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate of the amount of the obligation can be made.

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 rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of discount rate is recognised as a finance cost in profit or loss.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Scheme from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost to terminate the contract and the expected net cost of continuing with the contract. Before a provision is established, the Scheme recognises any impairment loss on the assets associated with the contract.

1.7 Outstanding risk claims provision

Risk claims outstanding comprise provisions for the Scheme's estimate of the ultimate cost of settling all risk claims incurred but not yet reported (IBNR) at the reporting date. Risk claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the nature and number of members according to gender and age, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim.

Claims handling expenses are not separately accounted for as this service is provided by the Administrator and a fixed fee is paid for the full administration service including claims handling. No provision for claims handling expenses is required as the Scheme has no further liability to the Administrator at year end.

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

1.8 Member insurance contracts

Contracts under which the Scheme accepts significant insurance risk from another party (the member and his/her registered dependants) by agreeing to compensate the member or other beneficiary if a specified uncertain future event (the insured event) adversely affects the member or other beneficiary, are classified as insurance contracts.

The contracts issued compensate the Scheme's members for healthcare expenses incurred and are detailed in note 21.

1.9 Risk contribution income

Gross contributions comprise of risk contributions and medical savings account (MSA) contributions.

Risk contributions on member insurance contracts are accounted for monthly when their collection in terms of the insurance contract is reasonably assured. Risk contributions are earned from the date of attachment of insurance risk, over the indemnity period on a straight-line basis and are recognised as revenue.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

1.10 Relevant healthcare expenditure

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

1.10.1 Risk claims incurred

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

Net risk claims incurred (net of claims from members' medical savings accounts, recoveries from members for co-payments, recoveries from third parties (e.g. MVA and fraud recoveries) and discounts received from service providers) comprise:

- Claims submitted and accrued for services rendered during the year;
- Payments under provider contracts (managed care) for services rendered to members;
- Over or under provisions relating to prior year claims;
- Claims incurred but not yet reported; and
- Claims settled in terms of risk transfer arrangements.

Anticipated recoveries under risk transfer arrangements are disclosed separately as assets and are assessed in a manner similar to the assessment of the outstanding claims provision and claims reported not yet paid.

1.10.2 Managed care: management services fees

Managed care: management services fees comprise amounts paid or payable to a third party for managing the utilisation, costs and quality of healthcare services to the members of the Scheme. Managed care: management services fees are expensed as incurred.

1.10.3 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 carrying on the business of a medical scheme. Risk transfer arrangements do not reduce the Scheme's primary obligations to its members and their dependants, but the arrangements only decrease the loss the Scheme may incur as a result of carrying on the business of a medical scheme.

Risk transfer premiums are recognised as an expense over the indemnity period on a straight-line basis.

Risk transfer claims and benefits reimbursed are presented in profit or loss and in the statement of financial position on a gross basis. Only contracts that give rise to a significant transfer of insurance risk are accounted for as an insurance contract. Amounts recoverable under such contracts are recognised in the same year as the related claim.

Assets relating to risk transfer arrangements include balances due under risk transfer arrangements for outstanding claims provisions and claims reported not yet paid. Amounts recoverable under risk transfer arrangements are estimated in a manner consistent with the outstanding claims provision, claims reported not yet paid and settled claims associated with the risk transfer arrangement.

Amounts recoverable under risk transfer arrangements are assessed for impairment at each reporting date. These assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Scheme may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Scheme will receive under the risk transfer arrangement. The Scheme gathers the objective evidence that a risk transfer arrangement asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in note 1.5.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

1.11 Liability adequacy test

At the reporting date, liability adequacy tests are performed to ensure the adequacy of the member insurance contract liability.

Liabilities for insurance contracts are tested for adequacy by discounting current estimates of all future cash flows and comparing this amount to the carrying amount of the liabilities net of any related assets. Where a shortfall is identified, an additional provision is made and charged to profit or loss.

1.12 Investment income

Investment income comprises of dividends, interest income and realised gains or losses on the disposal of investments.

Interest income is recognised using the effective interest method, taking into account the principal amount outstanding and the effective rate over the period of maturity, when it is determined that such income will accrue to the Scheme.

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

1.13 Unallocated funds

Unallocated funds arise on the receipt of unidentified deposits in favour of the Scheme.

Unallocated funds older than three years have legally prescribed and are included under other income in profit or loss.

1.14 Income tax

In terms of section 10(1)(d) of the Income Tax Act, No 58 of 1962, as amended, receipts and accruals of a benefit fund are exempt from normal tax. A medical scheme is included in the definition of a benefit fund and consequently the Scheme is exempt from income tax.

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

	2015 R	2014 R
2. AVAILABLE-FOR-SALE INVESTMENTS		
Fair value at the beginning of the year	67 384 295	59 579 381
Additions	6 470 594	23 672 680
Unrealised (loss)/ gain on revaluation of available-for-sale investments	(3 833 144)	1 934 037
Realised gain on disposal of available-for-sale investments	4 619 967	4 238 595
Investment management fees	(439 810)	(422 675)
Disposals	(15 000 000)	(21 617 723)
Fair value at the end of the year	<u>59 201 902</u>	<u>67 384 295</u>
Non-current	<u>59 201 902</u>	<u>67 384 295</u>
	<u>59 201 902</u>	<u>67 384 295</u>
The investments included above represent investments in:		
Segregated portfolio	13 598 988	20 748 378
Linked insurance policies	45 602 914	46 635 917
	<u>59 201 902</u>	<u>67 384 295</u>
Available-for-sale investments are classified as non-current assets, unless they are expected to be realised within twelve months of the reporting date or unless they will need to be realised to raise operating capital.		
3. TRADE AND OTHER RECEIVABLES		
Insurance receivables		
Contributions outstanding	431 334	299 609
Amounts recoverable from members and suppliers	116 916	104 328
Amounts due	481 693	172 310
Impairment losses	(364 777)	(67 982)
Total receivables arising from insurance contracts	<u>548 250</u>	<u>403 937</u>
Loans and receivables		
Interest receivable	123 746	86 074
Sundry accounts receivable	1 584 805	12 726
Total loans and receivables	<u>1 708 551</u>	<u>98 800</u>
Total trade and other receivables	<u>2 256 801</u>	<u>502 737</u>

At 31 December 2015 the carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets. Interest is not charged on overdue balances. The estimated future cash flow receipts have not been discounted as the effect would be immaterial.

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

	2015 R	2014 R
4. CASH AND CASH EQUIVALENTS		
4.1 CURRENT, SHORT TERM DEPOSITS AND MONEY MARKET ACCOUNTS		
Current accounts	13 539 801	9 915 845
Short-term deposits and money market accounts	13 450 425	9 037 144
	<u>26 990 226</u>	<u>18 952 989</u>

The weighted average interest rate on cash and cash equivalents was 6.48% (2014: 5.83%).

4.2 PERSONAL MEDICAL SAVINGS ACCOUNT TRUST FUNDS

Current accounts	1 439 316	6 237
Call and fixed deposits	-	1 292 070
	<u>1 439 316</u>	<u>1 298 307</u>
Total cash and cash equivalents per statement of financial position	<u>28 429 542</u>	<u>20 251 296</u>

The effective interest rate on the MSA trust account was 5.49% (2014:5.56%).

At 31 December 2015, the carrying amounts of cash and cash equivalents approximate their fair values.

5. OUTSTANDING RISK CLAIMS PROVISION

Outstanding risk claims provision - not covered by risk transfer arrangements	2 500 000	4 200 000
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Analysis of movement in outstanding risk claims

Balance at beginning of year	4 200 000	3 236 000
Payments in respect of prior year	(4 348 084)	(3 398 445)
Under provision in respect of prior year	(148 084)	(162 445)
Adjustment for current year	2 648 084	4 362 445
Balance at end of year	<u>2 500 000</u>	<u>4 200 000</u>

Analysis of outstanding risk claims provision

Estimated gross claims	2 539 697	4 200 000
Estimated recoveries from savings plan accounts (note 6)	(39 697)	-
Balance at end of year	<u>2 500 000</u>	<u>4 200 000</u>

The Scheme's rules, in terms of the Act, provide that risk claims may only be paid if the Scheme is notified of the risk claim and documentation is submitted within 4 months following the month in which the service was rendered.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

5. OUTSTANDING RISK CLAIMS PROVISION (continued)

The outstanding risk claims provision is an estimate of the proportion of the risk claims liability incurred in the current financial year that is expected to be reported and paid only after the reporting date. The cost of outstanding risk claims is estimated as the difference between the risk management facility's estimate of risk claims incurred in 2015 and the actual risk claims reported and paid in 2016, for services provided in 2015.

The risk claims incurred by service date estimates are based on the Scheme's actual demographic structure and risk claims. Due to differences in claiming patterns, risk claims are grouped into in-hospital, chronic and out-of-hospital claim categories, and the claims incurred are assessed separately for each category. Results from the assessment are regularly reconciled with actual paid claims and adjustments made where necessary to ensure that these results remain accurate.

Process used to determine the assumptions

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

This is done via a sophisticated multi-simulation actuarial model which incorporates updated demographic and claims data. The outstanding risk claims provision is calculated as the difference between the risk claims projected for the period less the risk claims paid up to the end of that period. This process is done on a monthly basis and regularly reconciled with the actual experience.

Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding risk claims provision are the expected claims ratios for the most recent benefit years for the in-hospital, chronic and out-of-hospital categories of claims. These are used for assessing the outstanding claims provisions for the 2015 and 2014 benefit years.

The assumptions used in estimating the risk claims incurred for the Scheme are as follows:

Membership

The actual demographics of the Scheme were used, incorporating all membership movements for the period January to December. Membership is analysed on a beneficiary level, age, gender, area, type of dependant and chronic status of a dependant.

Reasonability checks

This estimation was tested against estimations produced by the following calculations:

- Actual risk claims paid in 2015 for 2014; and
- Traditional "chain ladder" methods, using risk claims development patterns derived from 2014 and 2015, as well as an analysis of the development patterns of December 2015 in isolation (i.e. adjustments for seasonality); and
- An analysis of risk claims already paid in 2016 for 2015.

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

	2015 R	2014 R
6. PERSONAL MEDICAL SAVINGS ACCOUNT TRUST LIABILITY		
Balance on savings account trust liability at the beginning of the year	1 379 947	1 280 585
Add:		
- Savings account contributions received (note 8)	1 290 250	1 161 240
- Transfers received from other medical schemes	76 468	16 142
- Interest and other income earned on trust monies invested (note 15)	91 286	71 980
	<u>2 837 951</u>	<u>2 529 947</u>
Less:		
- Claims paid to or on behalf of members (note 9)	(1 238 624)	(1 056 577)
- Refunds on death or resignation	(66 450)	(88 794)
- Bank charges and investment management fees incurred	(4 745)	(4 629)
Balance on savings account trust liability at the end of the year	<u><u>1 528 132</u></u>	<u><u>1 379 947</u></u>

The medical savings accounts contain a demand feature. In terms of Regulation 10 of the Medical Schemes Act, of South Africa, 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 option, and enrolls in another medical scheme without a personal medical savings account or does not enrol in another medical scheme.

It is estimated that claims to be paid out of medical savings accounts in respect of claims incurred in 2015 but not reported amount to R39 697 (note 5).

The carrying amount of the medical savings accounts approximates their fair values, since it is payable on demand. The amounts were not discounted due to the demand feature.

The mismatch between the medical savings account trust liability and the related trust funds relates to timing differences. These timing differences are typically cleared within a one month period.

The investment of medical savings account trust monies managed by the Scheme on behalf of its members has been separately disclosed in note 4.

7. TRADE AND OTHER PAYABLES

Insurance liabilities

Member and supplier liability - stale cheques	19 630	9 232
Member and supplier liability - unrepresented cheques	14 341	72 891
Netcare ARM provision	9 204	108 496
Reported claims not yet paid	1 125 194	814 031
Amounts due to members	<u>117 085</u>	<u>88 155</u>
Amounts due to suppliers	<u>1 008 109</u>	<u>725 876</u>
Total liabilities arising from insurance contracts	<u>1 168 369</u>	<u>1 004 650</u>

Other liabilities

Amounts owing to Administrator (note 20)	831 528	751 604
Unallocated receipts	1 673	9 858
Accruals	224 017	48 719
Total	<u>1 057 218</u>	<u>810 181</u>
Total trade and other payables	<u><u>2 225 587</u></u>	<u><u>1 814 831</u></u>

At 31 December 2015 the carrying amounts of other liabilities approximate their fair values due to the short-term maturities of these liabilities.

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

	2015 R	2014 R
8. RISK CONTRIBUTION INCOME		
Gross contributions per registered rules	130 941 871	116 670 920
Less: Savings contributions received*	(1 290 250)	(1 161 240)
Net contribution income	<u>129 651 621</u>	<u>115 509 680</u>

* 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 6 to the financial statements for more detail on how these monies were utilised.

9. RISK CLAIMS INCURRED

Current year claims	124 725 446	108 625 841
Claims not covered by risk transfer arrangements	<u>123 930 329</u>	<u>107 888 282</u>
Claims covered by risk transfer arrangements	<u>795 117</u>	<u>737 559</u>
Movement in outstanding claims provision	(1 700 000)	4 200 000
Under provision in prior year (note 5)	<u>(148 084)</u>	<u>(162 445)</u>
Adjustment for current year	<u>(1 551 916)</u>	<u>4 362 445</u>
	123 025 446	112 825 841
Less: Claims paid from members' savings accounts *	(1 238 624)	(1 056 577)
Risk claims incurred	<u>121 786 822</u>	<u>111 769 264</u>

* Claims are paid on behalf of members from their personal medical savings accounts in terms of Regulation 10(3) and the Scheme's registered benefits. Refer to note 6 to the financial statements for a breakdown of the movement in these balances.

10. CLAIMS RECOVERIES FROM THIRD PARTIES

Motor Vehicle Accident recoveries	327 958	327 651
Hospital discounts	24 709	-
Forensic recoveries	1 920 091	18 465
	<u>2 272 758</u>	<u>346 115</u>

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

	2015 R	2014 R
11. NET INCOME ON RISK TRANSFER ARRANGEMENT		
The Scheme had the following risk transfer arrangement transactions during the year:		
Capitation fees paid	(371 595)	(364 544)
Recoveries under risk transfer arrangements	795 117	737 559
	<u>423 522</u>	<u>373 015</u>

During the year the Scheme had one risk transfer arrangement in place. The methodology used to determine the claims covered by this arrangement is set out below.

ER 24

ER24 provides emergency medical response services to members of the Scheme. As no underlying fee-for-service data is available from ER24, the cost of providing the capitated services was estimated as follows:

- Data from the Administrator has been used as an estimate of the cost per family should the contract not be in place
- Fee-for-service claims submitted by ER24 were examined and converted to a per member per month measure; and
- The expected fee-for-service cost was calculated by multiplying the number of member families exposed to risk for the period.

12. MANAGED CARE: MANAGEMENT SERVICES

Pharmaceutical benefit management	437 329	404 744
Specialist, hospital referrals and pre-authorisations	1 513 195	1 399 333
Disease management	513 028	474 899
Network management	452 233	419 314
Medscheme: Health Risk Management (Pty) Ltd	-	269 052
	<u>2 915 785</u>	<u>2 967 342</u>

Circular 56 of 2015 issued by the Council for Medical Schemes on 9 September 2015 concluded that all accredited managed care services should be included as part of healthcare expenditure as they directly impact on the delivery of cost-effective and appropriate healthcare benefits to beneficiaries of medical schemes. The managed care fee has therefore been reallocated to 'Relevant healthcare expenditure' in the 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.

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

	2015 R	2014 R
13. OTHER OPERATING EXPENSES		
Association fees	103 466	107 212
Audit fees	509 401	54 355
Bank charges	58 496	53 005
Board of Healthcare Funders	34 239	31 343
Cash management fees	29 240	61 825
Council for Medical Schemes - rule amendments	15 937	14 650
Fidelity guarantee and professional indemnity insurance premium	15 000	15 000
Motor Vehicle Accident administration and legal fees	95 658	220 366
Printing and telephone costs	126 560	14 891
Trustee reimbursements (note 20)	1 502	-
	<u>989 499</u>	<u>572 647</u>
14. NET IMPAIRMENT ON HEALTHCARE RECEIVABLES		
Insurance receivables		
Members' and service providers' portions not recoverable	296 795	-
Increase in impairment	<u>296 795</u>	<u>-</u>
	<u>296 795</u>	<u>-</u>
15. INVESTMENT INCOME		
Income from investments		
Interest on cash and cash equivalents	686 995	1 017 132
Income from investments	1 703 879	1 672 683
Realised gains on disposal of available-for-sale investments	4 619 967	4 238 595
Interest received on personal medical savings account trust funds (note 6)	91 286	71 980
	<u>7 102 127</u>	<u>7 000 390</u>
16. OTHER OPERATING INCOME		
Recoveries: Forensic	-	144 002
	<u>-</u>	<u>144 002</u>

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

17. CASH FLOWS FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES

Net surplus for the year	6 724 120	1 284 678
Adjustments for:		
- Movement in provision for impairment losses	296 795	-
- Income from investments	(2 482 160)	(2 761 795)
- Realised gains on disposal of available-for-sale investments	(4 619 967)	(4 238 595)
- Interest paid	91 286	71 980
Cash flows from operations before working capital changes	10 074	(5 643 732)

18. COMMITMENTS AND OTHER CONTINGENT LIABILITIES

The Scheme does not have any commitments or contingent liabilities outstanding at 31 December 2015.

19. EVENTS AFTER THE REPORTING DATE

There have been no events that occurred subsequent to the end of the accounting period that affect the financial statements and that the Trustees consider should be reported.

20. RELATED PARTY TRANSACTIONS

The Scheme is controlled by the Board of Trustees who are appointed by the employers and elected by the members of the Scheme.

Parties with significant influence over the Scheme:

Administrator and managed care organisation

Discovery Health (Pty) Ltd has significant influence over the Scheme as Discovery Health (Pty) Ltd participates in the Scheme's financial and operating policy decisions, but does not control the Scheme. Discovery Health (Pty) Ltd provides administration and managed care services. These transactions are done on an arm's length basis.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board of Trustees and the Principal Officer.

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

BMW Financial Services (SA)(Pty) Ltd and BMW (SA) (Pty) Ltd

BMW Financial Services (SA) (Pty) Ltd and BMW (SA) (Pty) Ltd are the two employer companies, both these companies are considered related parties. Both entities participate in the Scheme's financial and operating policy decisions, but do not control the Scheme.

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

20. RELATED PARTY TRANSACTIONS (continued)

Transactions with key management personnel

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

	2015 R	2014 R
<i>Key management personnel</i>		
Contributions and claims (Trustees and their beneficiaries)		
- Statement of comprehensive income		
Gross contributions received	521 212	419 387
Gross claims incurred	(617 759)	(301 054)
Interest credited to medical savings account balances	(99)	(54)
Trustee reimbursements		
- Statement of comprehensive income		
Travel reimbursements	(1 502)	-
- Statement of financial position		
Medical savings account balances	1 830	1 396

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

Transaction	Nature of transactions and terms and conditions thereof
Contributions received	This constitutes the contributions paid by the related parties as members of the Scheme in their individual capacity. All contributions were on the same terms as those applicable to other members.
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 other members.
Medical savings account balances	The amounts owing to the related parties relate to medical savings account balances to which the parties have a right. All interest earned on the savings trust funds is allocated to members. The amounts are all current, and would need to be payable on demand should an appropriate claim be issued, or should the member resign from the Scheme.
Medical savings account interest	Interest is earned on positive MSA balances at an average effective interest rate of 5.49% (2014: 5.56%) per annum.

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

20. RELATED PARTY TRANSACTIONS (continued)

	2015 R	2014 R
Transactions with parties that have significant influence over the Scheme		
<i>Discovery Health (Pty) Ltd - administrator</i>		
Statement of comprehensive income		
Administration fees paid	(6 040 233)	(6 175 836)
<i>Discovery Health (Pty) Ltd - managed care organisation</i>		
Statement of comprehensive income		
Managed care fees paid	(2 915 785)	(2 698 290)
Statement of financial position		
Balance due to Discovery Health (Pty) Ltd (note 7)	831 528	751 604

The terms and conditions of the transactions with entities with significant influence over the Scheme were as follows:

Administration and managed care management service agreements

The administration and managed care management service agreements are in terms of the rules of the Scheme and in accordance with instructions given by the Board of Trustees. The agreements are automatically renewed each year unless notification of termination is received or following the cancellation of the Administrator's accreditation or the issue of a lawful directive to this effect by the Council for Medical Schemes in terms of the Medical Schemes Act, of South Africa. The Scheme and the Administrator/Managed Healthcare Organisation shall be entitled to terminate the agreement by giving notice in writing of not less than 90 days and not more than 180 days. The outstanding balance bears no interest and is due within 7 days.

BMW Financial Services (SA)(Pty) Ltd and BMW (SA) (Pty) Ltd

Statement of comprehensive income		
Gross contributions	130 941 871	116 670 920
Savings contributions	1 290 250	1 161 240
Statement of financial position		
Risk contribution debtors	431 334	299 609

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

21. INSURANCE RISK MANAGEMENT REPORT

Nature and extent of risks arising from insurance contracts

The primary insurance activity carried out by the Scheme indemnifies covered members and their dependants against the risk of loss arising as a result of the occurrence of a health event (i.e. an event relating to the health of the Scheme member and his or her registered dependants). As such, the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract. Insurance events are, by nature, random and the actual number and size of events during any one year may vary.

This section summarises these risks and the way they are managed.

Insurance risk

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Scheme faces under its insurance contracts is that the actual claim payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency and/or severity of claims are greater than estimated.

Factors that aggravate insurance risk include changes in membership distribution and major unanticipated demographic movements, adverse experience regarding the cost of prescribed minimum benefits and unusually adverse experience due to seasonal patterns.

Risk management objectives and policies for mitigating insurance risk

The Scheme's annual budget is prepared under strict actuarial supervision which determines the contributions against claims projections, taking the statutory solvency requirements into account. The performance against the budget is closely monitored by the Board of Trustees and appointed sub-committees. Should any deviations occur, they are investigated with the necessary interventions implemented.

The methods employed by the Scheme to monitor and manage its insurance risk, inherent in the medical scheme environment, include the following:

- The Board of Trustees monitor and review all financial and operational performance on a monthly basis;
- All claims and demographic movements are monitored on a monthly basis via a multi-simulation actuarial model;
- Actuarial projections of the Scheme's year-end financial position are done monthly;
- The Scheme also applies a number of managed care programmes to monitor and manage the appropriateness, cost and quality of the healthcare services provided to the beneficiaries of the Scheme; and
- The need for re-insurance is considered on an ongoing basis within the existing regulatory environment.

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

21. INSURANCE RISK MANAGEMENT REPORT (continued)

Insurance risk - description of benefit option

The Scheme offers members one benefit option. The types of benefits offered by the Scheme in return for monthly contributions are indicated below:

Prescribed Minimum Benefits (PMBs)

This benefit covers the benefits contemplated in section 29(1)(o) of the Act and consists of the provision of the diagnosis, treatment and care costs of the diagnosis and treatment pairs listed in Annexure A of the Regulations, subject to any limitations specified therein and any emergency medical condition.

The Scheme applies guidelines and protocols for appropriate clinical management under Designated Service Provider (DSP) agreements.

Major Medical Expenses (insured benefits)

Hospital Benefit

The hospital benefit covers medical expenses incurred if members are admitted to hospital and the Scheme has authorised the treatment.

Clinical protocols and provider contracting are applied to pre-authorisations and the management of the benefit.

The Administrator negotiates hospital tariffs annually on behalf of the Scheme to allow for benefit of scale.

Chronic Illness Benefit (CIB)

The chronic illness benefit covers approved medication for up to 48 listed conditions. These are the 27 Prescribed Minimum Benefit chronic conditions and other non-prescribed chronic conditions.

This benefit and approval are managed by an appointed accredited Managed Care Organisation for drug utilisation, medicine management and adherence to compliance with regard to the Prescribed Minimum Benefit conditions.

Other services (insured procedure benefits)

These services provide cover for non-hospital expenses, subject to prior approval from the Scheme, which is managed and monitored by an appointed clinical committee.

Personal Medical Savings Account

This benefit provides cover for out-of-hospital healthcare services, such as visits to a general practitioner. The savings plan facility assists members in managing cash flows for costs to be borne by them during the year.

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

21. INSURANCE RISK MANAGEMENT REPORT (continued)

Hospital Benefit risk

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The most significant factor is the admission rate which has a direct impact on the cost of claims.

A 2% increase or decrease in the admission rate is estimated to increase or decrease the Scheme's loss ratio by 1.41%. The introduction of new hospital technologies could also increase variability of claims. In some instances, the new technology has a beneficial impact on costs, whether in-hospital or consequent costs. In other instances the new technologies will increase costs.

The change in the admission rate is shown in the following table.

Plan type	2015 Admission rate	2014 Admission rate	% difference (decrease)
BMW Employees Medical Aid Society	23%	21%	8.33%

Other factors that impact on hospital claims are shown below.

Key indicators	2015	2014	% difference (decrease)
Length of stay	3.43 days	3.86 days	-11.14%
Average cost per event *	R 21 518	R 21 941	-1.93%
Hospital cost per life per month *	R 413	R 389	6.17%

* After adjusting for IBNR, case mix and excluding the cost of professionals attending in-hospital.

Initiatives used by the Scheme to manage the risk associated with admission rate include:

- The development of protocols around admissions, including funding protocols for various treatments and procedures;
- The "See Your Doctor First" initiative which requires members to see their doctor prior to an elective admission; and
- The amendment to the pre-authorisation length of stay benchmarks.

Chronic Illness Benefit (CIB) risk

Frequency and severity of claims

The main factors impacting the frequency and/or severity of chronic claims are the number of claimants and the cost per claimant. An increase in the number of claimants results in an increase in the frequency and/or severity of claims. Higher increases in claimants can be attributed to increases in the number of claimants at older ages. Increases in the number of items per claimant drives up the cost of chronic claims per claimant.

The mix between the various chronic conditions impacts the frequency and severity of claims. The following table shows the change in the chronic prevalence for key measures.

Measure	2015	2014	% difference (decrease)
Cost per claimant	R 5 931	R 5 164	14.86%
Claimants per 1000 lives	86	84	1.58%
Per life per month cost	R 1 317	R 1 246	5.76%

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

21. INSURANCE RISK MANAGEMENT REPORT (continued)

Day-to-day benefit risk*Frequency and severity of claims*

The risk to the Scheme is limited up to an annual limit per benefit per family via individualised medical savings accounts, as prescribed by the rules of the Scheme.

Concentration of insurance risk

The following table summarises the concentration of insurance risk, with reference to the carrying amount of the insurance claims incurred (net of adjustments per beneficiary) for service years 2015 and 2014, by age group and in relation to the type of risk cover/benefits provided.

Claims incurred for 2015 service year per beneficiary

Age grouping (in years)	Avg number of beneficiaries	In-hospital R	Chronic R	Day-to-day R	Total R
< 26	3 350	4 748	310	3 744	8 802
26 – 35	1 462	5 964	262	7 652	13 878
36 – 50	1 756	9 264	1 271	9 220	19 754
> 50	1 145	16 092	2 684	12 083	30 859

Claims incurred for 2014 service year per beneficiary

Age grouping (in years)	Avg number of beneficiaries	In-hospital R	Chronic R	Day-to-day R	Total R
< 26	3 301	3 530	341	3 395	7 266
26 – 35	1 363	4 679	246	6 627	11 552
36 – 50	1 740	7 778	1 174	7 912	16 864
> 50	1 147	13 062	2 341	9 114	24 516

Contracts with providers are negotiated by the Administrator on behalf of the Scheme to benefit from scale and ultimately the rates. Such contracts are reviewed annually.

Risk transfer arrangements

The Scheme has a capitation agreement to cover specific risks. The Scheme has contracted with the ER24 for emergency medical response.

Risk in terms of risk transfer arrangements

According to the terms of the capitation agreement, the provider provides certain benefits to Scheme members, as and when required by the members. The Scheme does however remain liable to its members if the supplier should fail to meet its obligations.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

21. INSURANCE RISK MANAGEMENT REPORT (continued)

Claims development

Claims development tables are not presented as the uncertainty regarding the amount and timing of claim payments is typically resolved within one year and in the majority of cases within four months. At year end, a provision is made for those claims outstanding that are not yet reported at that date. Details regarding the subsequent development in respect thereof have been disclosed in note 5.

Outstanding risk claims provision

There are some sources of uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for claims made under insurance contracts.

Process used to determine the assumptions

Refer to note 5.

Changes in assumptions and sensitivities to changes in key variables

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

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

An analysis of the sensitivities around various scenarios for the general medical insurance business provides an indication of the adequacy of the Scheme's estimation process. The Scheme believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

21. INSURANCE RISK MANAGEMENT REPORT (continued)

The impact on the liability and reported profits caused by changes in key variables are as follows:

	Change in variable	Increase in	Decrease in
	%	Profit	Profit
		£	£
Risk claims incurred	10% increase in claims cost	250 000	420 000

The Scheme is most vulnerable to changes in membership distribution and changes in the underlying rate of inflation which drives a number of assumptions.

Sensitivity of the Scheme's profit or loss and reserves to changes in variables that have a material effect on them

The Scheme's profitability, reserves and therefore solvency are most sensitive to changes in claims development patterns. Other assumptions that are considered include assumptions regarding utilisation trends, the impact of new technology and the expected demographic profile of the Scheme membership.

Underwriting risk

Underwriting risk is the risk that the actual exposure of the Scheme in respect of claims will exceed the prudent estimates of the amounts provided for the cash flows required to settle them. External actuaries have been consulted in setting these estimates at year end, including the estimate for those claims outstanding at year end, which had not been reported. The details of the estimation process are fully disclosed in note 5.

22. FINANCIAL RISK MANAGEMENT REPORT

Overview

The Scheme is exposed to financial risk through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are market risk, credit risk and liquidity risk. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Scheme's statutory solvency requirement.

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

The Scheme manages these risks through various risk management processes. These processes have been developed to ensure that the long-term investment return on assets supporting the insurance liabilities is sufficient to fund members' reasonable benefit expectations.

An Audit and Risk Committee has been established by the Board of Trustees to assist in the implementation and monitoring of these risk management processes.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

22. FINANCIAL RISK MANAGEMENT REPORT (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, 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 risk.

Currency risk

All of the Scheme's benefits are denominated in South African Rands (ZAR) and therefore the Scheme does not have significant net currency risk.

Price risk

The Scheme is exposed to equity security price risk because of investments held by the Scheme. The Scheme is not exposed to commodity risk. To manage its price risk arising from investments in equity securities, the Scheme diversifies its portfolio. Diversification of the portfolio is done by the relevant asset managers through the investments held in a segregated portfolio and linked insurance policies.

The Scheme continues to pursue a more growth-orientated investment strategy, in accordance with the Act and Regulations thereto.

Interest rate risk

The Scheme is exposed to interest rate risk as it places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate investments within the Scheme's cash and cash equivalents.

The Scheme's insurance liabilities are settled within one year and the Scheme does not discount insurance liabilities. Consequently, insurance liabilities do not expose the Scheme to interest rate risk.

The table below summarises the Scheme's exposure to interest rate risks. Included in the table are the Scheme's cash and cash equivalents, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month	1 to 3 months	3 and more months	Total
As at 31 December 2015	R	R	R	R
Cash and cash equivalents	14 979 117	13 450 425	-	28 429 542
Total	14 979 117	13 450 425	-	28 429 542

	Up to 1 month	1 to 3 months	3 and more months	Total
As at 31 December 2014	R	R	R	R
Cash and cash equivalents	9 922 082	10 329 214	-	20 251 296
Total	9 922 082	10 329 214	-	20 251 296

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

22. FINANCIAL RISK MANAGEMENT REPORT (continued)

The following table below summarises the effective interest rate for monetary financial instruments:

	2015	2014
Current, short term deposits and money market accounts	6.48%	5.83%
Personal medical savings account trust funds	5.49%	5.56%

Sensitivity analysis for available-for-sale investments and cash and cash equivalents (excluding Personal members savings account trust funds)

Sensitivity analysis: Cash

Basis:

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of interest (see table below). i.e. +1% suggests the closing market value could have been R34 950 506 if the interest had been higher by 1% during 2015 as compared to the actual interest rate. A one percent increase in the interest at the reporting date would have increased cash by R325 255 (2014 an increase of R274 315). An equal change in the opposite direction would have decreased cash by R325 255 (2014 a decrease of R274 315).

% Change	Return of Index	Adjusted Closing Value R	Difference R
2.00%	8.46%	35 275 761	650 510
1.00%	7.46%	34 950 506	325 255
0.00%	6.46%	34 625 251	-
(1.00%)	5.46%	34 299 996	(325 255)
(2.00%)	4.46%	33 974 741	(650 510)

Sensitivity analysis: Bonds

Basis:

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of investment performance (see table below). i.e. +1% suggests the closing market value could have been R19 802 790 if the investment performance had been higher by 1% during 2015 as compared to the market investment performance. A one percent increase in the investment return at the reporting date would have increased bonds by R204 005 (2014 an increase of R153 394). An equal change in the opposite direction would have decreased bonds by R204 005 (2014 a decrease of R153 394).

% Change	Return of Index	Adjusted Closing Value R	Difference R
2.00%	(1.93%)	20 006 794	408 009
1.00%	(2.93%)	19 802 790	204 005
0.00%	(3.93%)	19 598 785	-
(1.00%)	(4.93%)	19 394 780	(204 006)
(2.00%)	(5.93%)	19 190 776	(408 009)



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

22. FINANCIAL RISK MANAGEMENT REPORT (continued)

Sensitivity analysis: Equity

Basis:

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of investment performance (see table below). i.e. +2% suggests the closing market value could have been R32 576 269 if the investment performance had been higher by 2% during 2015 as compared to the market investment performance.

All equity investments are listed on the JSE. A two percent increase in the investment return at the reporting date would have increased equity by R608 176 (2014 a increase of R728 561); an equal change in the opposite direction would have decreased equity by R608 176 (2014 a decrease of R728 561).

The change will have an impact on the revaluation reserve and/or the profit/loss depending on the investment type.

% Change	Return of Index	Adjusted Closing Value R	Difference R
4.00%	9.13%	33 184 445	1 216 352
2.00%	7.13%	32 576 269	608 176
0.00%	5.13%	31 968 093	-
(2.00%)	3.13%	31 359 917	(608 176)
(4.00%)	1.13%	30 751 741	(1 216 352)

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.

The Scheme's principal financial assets are cash and cash equivalents, trade and other receivables and available-for-sale investments. The Scheme's credit risk is primarily attributable to its trade and other receivables.

Trade and other receivables

Trade and other receivables comprises of insurance receivables and loans and receivables. The main components of insurance receivables are in respect of:

- Receivables for contributions due from members; and
- Receivables for amounts recoverable from service providers and members in respect of claims debt.

The Scheme manages credit risk by:

- Actively pursuing all contributions after 3 days of becoming due, as required by S26(7) of the Medical Schemes Act, of South Africa;
- Suspending benefits on members' accounts whose contributions have not been received for 30 days;
- Terminating benefits on members' accounts whose contributions have not been received for 60 days; and
- Ageing and pursuing unpaid accounts on a monthly basis.

The Scheme establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Details of the process to estimate the impairment provision are included in note 1.5.



BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

22. FINANCIAL RISK MANAGEMENT REPORT (continued)

Credit risk (continued)

Cash and cash equivalents

The Scheme has no significant concentration of credit risk. Cash transactions are limited to financial institutions with a high credit rating. The Scheme has a policy of limiting the amount of credit exposure to any one financial institution.

The table below shows the credit limit and balances of cash and cash equivalents held at 5 major counterparties at year end which is in compliance with Annexure B of the Regulations. The statutory credit limit is calculated as 35% of the aggregate fair value of liabilities and accumulated funds.

Counterparty	2015		2014	
	Credit limit R	Balance R	Credit limit R	Balance R
1	25 940 507	14 840 339	24 649 712	9 926 586
2	25 940 507	15 467 840	24 649 712	1 696 292
3	25 940 507	1 370 341	24 649 712	1 073 033
4	25 940 507	1 123 938	24 649 712	1 027 492
5	25 940 507	148 597	24 649 712	3 133 086

No credit limits were exceeded during the reporting period and the Trustees do not expect any losses from non-performance of these counterparties.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Notes	Carrying amount	
		2015 R	2014 R
Trade and other receivables	3	2 256 801	502 737
Insurance receivables		548 250	403 937
Loans and receivables		1 708 551	98 800
Cash and cash equivalents	4	28 429 542	20 251 296
		<u>30 686 343</u>	<u>20 754 033</u>

The main components of insurance receivables are contribution receivables, member and service provider claims receivables.

Contribution receivables are collected by means of cash payments or debit orders.

The maximum credit exposure to contribution receivables and member and service provider claims receivables was:

Contribution receivables	431 334	299 609
Member claims receivables	54 955	39 424
Provider claims receivables	61 961	64 905
	<u>548 250</u>	<u>403 938</u>

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

22. FINANCIAL RISK MANAGEMENT REPORT (continued)

Exposure to credit risk (continued)

Impairment

The ageing of insurance receivables at year end was:

	2015		2014	
	Gross R	Impairment R	Gross R	Impairment R
Not past due	483 609	-	332 061	-
Past due, not impaired	64 641	-	48 989	-
Past due, impaired	364 777	(364 777)	90 869	(67 982)
	<u>913 027</u>	<u>(364 777)</u>	<u>471 919</u>	<u>(67 982)</u>

The movement in the allowance for impairment during the year was as follows:

	2015 R	2014 R
Balance at the beginning of the year	(67 982)	(67 982)
Increase in impairment	(296 795)	-
Amounts recovered during the period	-	-
Balance at the end of the year	<u>(364 777)</u>	<u>(67 982)</u>

Based on past experience, the Scheme believes that no allowance is necessary in respect of insurance receivables that are past due and outstanding for less than 60 days.

Available-for-sale investments

The Scheme limits its exposure to credit risk by investing in liquid securities and only with counterparties that have a high credit rating. The Trustees do not expect any counterparty to fail to meet its obligations. Annexure B to Regulation 30 to the Medical Schemes Act, of South Africa, prescribes the credit limits per institution which reduces the individual risk per institution. The utilisation of these limits are regularly monitored.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	2015 R	2014 R
<i>Insurance receivables</i>		
Counterparties without external credit ratings		
Contribution debtors	431 334	299 609
Member claims receivables	54 955	39 424
Provider claims receivables	61 961	64 905
	<u>548 250</u>	<u>403 938</u>

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

22. FINANCIAL RISK MANAGEMENT REPORT (continued)

Contribution debtors

On analysing the credit quality of contribution debtors, the Scheme collected 100% of these amounts in January. This indicates a high credit quality rating of these debtors.

Active member claims debtors

These debtors are members of the Scheme and therefore are expected to have a similar credit quality to the contribution debtors.

		2015 R	2014 R
<i>Counterparties with external credit ratings (Fitch's)</i>			
<i>Cash and cash equivalents</i>			
Current accounts	F1+	14 979 117	9 922 082
Nedbank Money Market	AAA	6 408 657	-
Investec Money Market	AAA	7 041 768	-
Call and fixed deposits	F1+	-	10 329 214
		<u>28 429 542</u>	<u>20 251 296</u>

Available-for-sale investments

<i>Segregated portfolio:</i>			
Huysamer Capital Investments (Pty) Ltd		13 598 988	20 748 378
<i>Linked insurance policy:</i>			
Prudential Portfolio Managers (South Africa) Life Ltd		21 710 851	20 296 281
Coronation Fund Managers		19 511 384	24 333 567
Prescient Management Company (Pty) Ltd		4 380 680	2 006 069
		<u>59 201 902</u>	<u>67 384 295</u>

Asset allocation of Scheme (excluding Personal medical savings account trust funds)

Asset Class	2015 R	2014 R
Cash	34 625 251	29 050 737
Bonds	19 598 785	16 896 077
Equity	27 189 096	40 390 470
Total	81 413 132	86 337 284

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

22. FINANCIAL RISK MANAGEMENT REPORT (continued)

Liquidity risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due. The Scheme's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Scheme's reputation.

Approximately 99% of the Scheme's insurance liabilities are settled within four months after the claim was incurred and the remaining liability is settled within eight months.

A maturity analysis for financial liabilities, including insurance liabilities is provided below:

As at 31 December 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Outstanding risk claims provision (note 5)	R 2 500 000	-	-
Members' savings accounts (note 6)	R 1 528 132	-	-
Trade and other payables (note 7)	R 2 225 587	-	-

As at 31 December 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Outstanding risk claims provision (note 5)	R 4 200 000	-	-
Members' savings accounts (note 6)	R 1 479 309	-	-
Trade and other payables (note 7)	R 1 814 831	-	-

Legal risk

Legal risk is the risk that the Scheme will be exposed to contractual obligations which have not been provided for. At 31 December 2015 the Scheme did not consider there to be any significant concentration of legal risk that had not been provided for.

Capital management

The Scheme is subject to the capital requirement imposed by Regulation 29(2) to the Medical Schemes Act, of South Africa, which requires a minimum solvency ratio of accumulated funds expressed as a percentage of gross contributions to be 25%.

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

The calculation of the regulatory capital requirement is set out below.

	2015 R	2014 R
Total members' funds per statement of financial position	83 634 526	80 743 550
Less: Cumulative unrealised net gain on remeasurement to fair value of investments	(12 076 393)	(15 909 537)
Accumulated funds per Regulation 29	71 558 133	64 834 013
Annualised gross contributions	130 941 871	116 670 920
Solvency margin = Accumulated funds/annualised gross contribution income x 100	54.65%	55.57%

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

22. FINANCIAL RISK MANAGEMENT REPORT (continued)

Investment risk

The Scheme's Audit and Risk Committee invests excess funds in line with the Medical Schemes Act of South Africa.

The Scheme's investment objectives are to maximise the return on its investments on a long-term basis at acceptable risk, subject to any constraints imposed by legislation or the Trustees. The Scheme continues to diversify its investment portfolio by investing in a segregated portfolio and linked insurance policies.

Continuous monitoring takes place to ensure that appropriate assets are held where the Scheme's liabilities are dependent upon the performance of the investment portfolio and that a suitable match of assets exists for all liabilities.

Breakdown of investments

The assets of the portfolio, excluding Personal Medical Savings Account trust funds, must be invested in accordance with Annexure B of Regulation 30 to the Medical Schemes Act, of South Africa.

The investments for the purposes of the financial statements comprise of available-for-sale investments and cash and cash equivalents.

	2015 R	2014 R
Available-for-sale investments are made up of the following:		
Segregated portfolio	13 598 988	20 748 378
Linked insurance policy	45 602 914	46 635 917
	<u>59 201 902</u>	<u>67 384 295</u>

Cash and cash equivalents are made up of the following:

Current accounts	13 539 801	9 915 845
Money market instruments	13 450 425	-
Call and fixed accounts	-	9 037 144
	<u>26 990 226</u>	<u>18 952 989</u>

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

22. FINANCIAL RISK MANAGEMENT REPORT (continued)

Fair value estimation

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

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

The following table compares the fair value and carrying amounts of financial assets and liabilities per class of financial asset and financial liability. The carrying amount is the fair value.

	Available-for-sale investments	Loans and receivables/ (other financial liabilities)	Insurance receivables and payables	Total carrying amount
	R	R	R	R
31 December 2015				
Cash and cash equivalents	-	28 429 542	-	28 429 542
Trade and other receivables	-	1 708 551	548 250	2 256 801
Trade and other payables	-	(1 057 218)	(1 168 369)	(2 225 587)
Available-for-sale investments	59 201 902	-	-	59 201 902
Members' savings account liability	-	(1 528 132)	-	(1 528 132)
	59 201 902	27 552 743	(620 119)	86 134 526
31 December 2014				
Cash and cash equivalents	-	20 251 296	-	20 251 296
Trade and other receivables	-	98 800	403 937	502 737
Trade and other payables	-	(810 181)	(1 004 650)	(1 814 831)
Available-for-sale investments	67 384 295	-	-	67 384 295
Members' savings account liability	-	(1 379 947)	-	(1 379 947)
	67 384 295	18 159 968	(600 713)	84 943 550

23. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting estimates and assumptions

The Scheme makes estimates and assumptions concerning the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The resulting accounting estimates will, by definition, rarely equal the related actual result. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Outstanding risk claims provision

The critical estimates and judgements relating to the outstanding claims provision are set out under note 5.

Other risk transfer arrangements

The critical estimates and judgements relating to other risk transfer arrangements are set out under note 11.

Impairment of financial assets

The critical estimates and judgements relating to the impairment of assets are set out under note 1.5.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

23. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Valuation of financial instruments

The Scheme's accounting policy on fair value measurements is discussed in accounting policy 1.3.

The Scheme measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

All the Scheme's financial instruments at fair value (available-for-sale investments) are categorised as level 1.

24. NON-COMPLIANCE MATTERS

24.1 Contributions not received within three days of them becoming due

In terms of Section 26(7) of the Medical Schemes Act, of South Africa ("the Act"), all subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due.

Although the majority of contribution payments were made within the stipulated payment deadlines, there were a small number of instances where the Scheme received contributions after three days of becoming due. These contributions equate to 0.22% of the gross contributions billed and were received within the month of them becoming due. Such arrear payments are outside the agreed contribution collection agreements with paying parties and are actively addressed as and when they occur.

The procedures that the Scheme follows for collection of these arrear contributions are aligned with its credit risk management policies.

BMW EMPLOYEES MEDICAL AID SOCIETY

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

24. NON-COMPLIANCE MATTERS (continued)

24.2 Investment in Medical Administrators and Other Medical Schemes

At 31 December 2015, the Scheme indirectly held shares in Discovery Holdings Limited amounting to R2 083 421 (2014: R2 150 243), MMI Holdings Limited amounting to R465 934 (2014: R525 782) and Liberty Group Limited amounting to R90 516 (2014: R59 490).

Ordinarily this would be in contravention of Section 35(8) of the Act which, inter alia, prohibits medical schemes from holding shares in any other medical scheme, any administrator and any person associated with any of these. However, as funds in these portfolios are structured at the sole discretion of the asset manager in a manner that maximises returns and the Scheme provides no input into the structuring of the portfolios.

The Scheme has received exemption from the Council for Medical Schemes, from compliance this section of the Act.

BMW EMPLOYEES MEDICAL AID SOCIETY

Registration Number: 1526

REPORT OF THE BOARD OF TRUSTEES

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

1 DESCRIPTION OF THE SCHEME

1.1 Terms of registration

The BMW Employees Medical Aid Society is a not-for-profit restricted membership Scheme registered in terms of the Medical Schemes Act, of South Africa.

1.2 Benefit options within the BMW Employees Medical Aid Society

The Scheme offers one (1) benefit option.

1.3 Savings plan

To provide a facility for Scheme members to set funds aside to meet day-to-day and other healthcare costs not covered by the 'risk' benefits in the option, the Trustees have made a personal medical savings account available.

Contributions to the personal medical savings accounts (MSA) are set and the total available amount is based on family size and the member's income level. The amounts contributed to the personal MSA do not exceed 1% (one percent) of the member's total medical scheme contribution.

The liability to the members in respect of the savings plan is reflected as a current liability in the Scheme's financial statements, repayable in terms of Regulation 10.

In terms of the rules of the Scheme, the savings plan is underwritten by the Scheme.



BMW EMPLOYEES MEDICAL AID SOCIETY**Registration Number: 1526****REPORT OF THE BOARD OF TRUSTEES (continued)****2 MANAGEMENT****2.1 Board of Trustees in office during the year and at the date of this report was:**

C Hector	Chairman - Employer Representative
C Bathauer	Vice Chairman - Employee Representative
DW Blue	Employer Representative - resigned 07 June 2015
D Radebe	Employer Representative
N Moonia	Employer Representative
W Scott	Employer Representative
F Viljoen	Employer Representative
A Kgoathe	Employee Representative
D Lee	Employee Representative
K Madumo	Employee Representative
M Molefe	Employee Alternative Representative
J Meiring	Pensioner Representative
JP Fegbeutel	Pensioner Alternative Representative
S Roodt	Co-opted Employer Representative
V Vatsha-Mahlaba	Co-opted Employer Representative

2.2 Principal Officer

AR Kelbrick

2.3 Registered office address and postal address

16 Fredman Drive	PO Box
Sandton	Sandton
2146	2146

2.4 Scheme administrator during the year

Discovery Health (Pty) Limited

16 Fredman Drive	PO Box
Sandton	Sandton
2146	2146



BMW EMPLOYEES MEDICAL AID SOCIETY

Registration Number: 1526

REPORT OF THE BOARD OF TRUSTEES (continued)

2.5 Investment managers during the year

The Scheme made use of the services of the following asset managers:

- Acsis Limited
- Coronation Fund Managers
- Huysamer Capital Investments (Pty) Ltd
- Prescient Management Company (Pty) Ltd
- Prudential Portfolio Managers (South Africa) Life Ltd

2.6 Investment consultant during the year

Acsis Limited

Old Mutual Square
3rd Floor, Ubomi Building
93 Grayston Drive
Sandton
2010

PO Box 650140
Benmore
Johannesburg
2010

2.7 Actuaries

Mr Pieter Grobler

Discovery Health (Pty) Ltd

5th Floor
16 Fredman Drive
Sandton
2146

PO Box 784262
Sandton
2146

3 INVESTMENT AND FIXED ASSET POLICY OF THE SCHEME

The Trustees continue to invest funds in line with the requirements of the Act. The Scheme continues to pursue a growth-orientated investment strategy.

REPORT OF THE BOARD OF TRUSTEES (continued)

4 REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

4.1 Operational statistics

	2015	2014
Number of members at the end of the accounting period	3 278	3 264
Number of beneficiaries at the end of the accounting period	7 713	7 551
Average number of members for the accounting period	3 274	3 209
Average age of beneficiaries for the accounting period	27.88	28.18
Pensioner ratio (beneficiaries > 65 years)	1.87%	1.71%
Average net contributions per member per month	R 3 300.37	R 2 999.63
Average net contributions per beneficiary per month	R 1 400.79	R 1 274.77
Average claims incurred per member per month	R 3 105.75	R 2 960.88
Average claims incurred per beneficiary per month	R 1 318.19	R 1 258.30
Average administration costs per member per month	R 178.95	R 175.25
Average administration costs per beneficiary per month	R 75.95	R 74.48
Average managed care: Management services per member per month	R 74.22	R 77.06
Accumulated funds per member at 31 December	R 21 829.81	R 19 863.36
Beneficiary ratio at 31 December 2013	2.35	2.31
Net claims as a percentage of net contributions	94.10%	98.71%
Managed care: Management services as a percentage of gross contributions	2.23%	2.54%
Administration expenses as a percentage of gross	5.60%	5.78%

4.2 Results of operations

The results of the Scheme are set out in the financial statements and the Trustees believe that no further clarification is required.

4.3 Accumulated funds ratio

	2015 R	2014 R
The accumulated funds ratio is calculated on the following		
Total members' funds per statement of financial position	83 634 526	80 743 550
- Less: Available-for-sale reserve ** (Refer to next page)	(12 076 393)	(15 909 537)
Accumulated funds per Regulation 29	<u>71 558 133</u>	<u>64 834 013</u>
Annualised gross contributions	<u>130 941 871</u>	<u>116 670 920</u>
Accumulated funds ratio = Accumulated funds/annualised gross contribution income x 100	54.65%	55.57%

REPORT OF THE BOARD OF TRUSTEES (continued)

4.3 Accumulated funds ratio (continued)

**** Cumulative net gains on re-measurement to fair value are calculated as follows:**

	2015	2014
	R	R
Net cumulative gain at the beginning of the period	15 909 537	13 975 500
Unrealised gain on revaluation of available-for-sale investments included in accumulated funds	786 823	6 172 632
Realised gains on derecognition of available-for-sale investments	(4 619 967)	(4 238 595)
Cumulative net gain on remeasurement to fair value of available-for-sale investments included in accumulated funds	12 076 393	15 909 537

4.4 Reserve accounts

Movements in the reserves are set out in the statement of changes in funds and reserves. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Scheme.

4.5 Outstanding risk claims

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

5 ACTUARIAL SERVICES

The Scheme's actuaries have been consulted in the determination of the contribution and benefit levels. The Scheme's actuaries also calculate the annual budget and monthly actuarial reports of the Scheme, including the monthly incurred but not yet reported (IBNR) claims provision.

6 EVENTS AFTER THE REPORTING DATE

There have been no events that occurred subsequent to the end of the accounting period that affect the financial statements and that the Trustees consider should be reported.

REPORT OF THE BOARD OF TRUSTEES (continued)

7 INVESTMENTS IN AND LOANS TO PARTICIPATING EMPLOYERS OF MEMBERS OF THE SCHEME AND TO OTHER RELATED PARTIES

Discovery Health (Pty) Ltd is the administrator of the Scheme.

Payments are made in terms of the administration and managed care agreements, for 2015 at the end of 2014, with Discovery Health (Pty) Ltd:

	2015 R	2014 R
Discovery Health (Pty) Ltd	8 956 018	8 874 126
Administration fees	6 040 233	6 175 836
Managed care: management services fees	2 915 785	2 698 290

8 AUDIT AND RISK COMMITTEE

An Audit and Risk Committee (the Committee) was established in accordance with the provisions of the Act. The Committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The Committee consists of 6 members of which 2 are members of the Board of Trustees. The Committee met on two occasions during the course of the year as follows:

- 09 April 2015
- 09 November 2015.

The Chairman of the Board of Trustees and the Administrator attend all Committee meetings and have unrestricted access to the Chairman of the Committee. The external auditor of the Scheme attend meetings on invitation only.

In accordance with the provisions of the Act, the primary responsibility of the Committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems and financial reporting practices. The external auditor formally reports to the Committee on critical findings arising from audit activities.

This Committee also acts as a risk committee.

The Committee presently comprises:

S Moodley	Independent - Chairman
J Badenhorst	Independent
S Bisnath	Independent
C Dorasamy	Independent
C Hector	Employer Trustee
C Bathauer	Employee Trustee

REPORT OF THE BOARD OF TRUSTEES (continued)

9 NON-COMPLIANCE MATTERS

9.1 Contributions not received within three days of them becoming due

In terms of Section 26(7) of the Medical Schemes Act, of South Africa ("the Act"), all subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due.

Although the majority of contribution payments were made within the stipulated payment deadlines, there were a small number of instances where the Scheme received contributions after three days of becoming due. These contributions equate to 0.22% of the gross contributions billed and were received within the month of them becoming due. Such arrear payments are outside the agreed contribution collection agreements with paying parties and are actively addressed as and when they occur.

The procedures that the Scheme follows for collection of these arrear contributions are aligned with its credit risk management policies.

9.2 Investment in Medical Administrators and Other Medical Schemes

At 31 December 2015, the Scheme indirectly held shares in Discovery Holdings Limited amounting to R2 083 421 (2014: R2 150 243), MMI Holdings Limited amounting to R465 934 (2014: R525 782) and Liberty Group Limited amounting to R90 516 (2014: R59 490).

Ordinarily this would be in contravention of Section 35(8) of the Act which, inter alia, prohibits medical schemes from holding shares in any other medical scheme, any administrator and any person associated with any of these. However, as funds in these portfolios are structured at the sole discretion of the asset manager in a manner that maximises returns and the Scheme provides no input into the structuring of the portfolios.

The Scheme has received exemption from the Council for Medical Schemes, from compliance this section of the Act.

REPORT OF THE BOARD OF TRUSTEES (continued)

10 MEETING ATTENDANCE

The following schedules set out Board of Trustee meeting attendances and attendances by members of Sub-Committees:

Board of Trustees meetings	Number of meetings
Number of meetings for the year	5
C Hector	5
C Bathauer #	2
DW Blue - resigned 07 June 2015	-
D Radebe	4
N Moonia	5
W Scott	3
F Viljoen	5
A Kgoathe	2
D Lee	5
K Madumo	3
M Molefe	2
J Meiring	3
JP Fegbeutel	5
S Roodt	5
V Vatsha-Mahlaba	1
<i>Attendees:</i>	
AR Kelbrick - Principal Officer	5

BMW EMPLOYEES MEDICAL AID SOCIETY

Registration Number: 1526

REPORT OF THE BOARD OF TRUSTEES (continued)

10 MEETING ATTENDANCE (continued)

Audit and Risk Committee meetings	Number of meetings
Number of meetings for the year	2
S Moodley	2
J Badenhorst	2
S Bisnath	1
C Dorasamy	2
C Hector	2
C Bathauer #	1

Maternity leave from February 2015 to August 2015


CHAIRMAN


TRUSTEE


PRINCIPAL OFFICER

18 April 2015