

# THEBEMED MEDICAL AID SCHEME ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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## CHAIRMAN'S REPORT

for the year ended 31 December 2010

Dear Members

2010 was both a challenging and rewarding year for ThebeMed. On the one hand, membership of the scheme increased by 92% from 4,382 at the end of 2009, to 8,421 at the end of 2010. At the same time, cost pressures experienced throughout the industry were brought to bear on ThebeMed. A number of large hospital claims in particular resulted in the scheme posting a loss of R 5,8m for the year. Together with the substantial increase in membership, this resulted in a reduction in the reserve ratio to 5.7%.

This is of obvious concern to the Board and we have worked closely with the administrator to address the situation. In this regard, a revised business plan has been approved by the Council for Medical Schemes (CMS). Performance against the plan is closely monitored and bi-monthly meetings are held with the CMS to ensure that positive progress is made.

As members will know, in September of 2010, the CMS approved a merger between ThebeMed and Suremed. This merger would have resulted in the reserve ratio of ThebeMed increasing to above 25%. Unfortunately, the Suremed trustees appealed this decision. The matter is due to come before the Supreme Court later this year. We are very hopeful that the matter will be resolved favourably.

On the membership side, a number of new clients were successfully bedded down during the year. These include Afgri, First National Batteries, The Grand, Coal of Africa and Murray & Roberts. We are very encouraged by this growth and early signs from this year indicate that this is set to continue.

From an administrative perspective, ThebeMed continues to exceed industry service level benchmarks with average claims turnaround times at less than 5 days, call centre response rates at 10 seconds (with 90% of queries resolved in the first call) and new membership turnaround of 10 days.

### Financial Results

A summary of the audited annual financials are attached, which show that the annual premiums grew by 29% to R 109 million. As mentioned above, ThebeMed incurred a net deficit for the year of R5,8 million. As a result, the reserves have reduced to R 6,3 million. This does present compliance challenges to the scheme in the sense that it is well below the statutory required level of 25%. The CMS has however approved the business plan for building reserves. Core actions identified in this plan include:

- Redesign of benefit options to address areas of abuse
- Further implementation of utilization management
- Continued focus on new entrants

- Preferential contractual arrangements with service providers
- Consideration of reinsurance arrangements

It should be noted that the membership risk profile of ThebeMed remains very strong (average age of members 29 yrs and the pensioner ratio below 1%) and this should assist greatly. In addition, Thebe Investment Corporation has also provided financial guarantees (through Standard Bank) which provide additional security to members over and above the normal reserves.

### **Conclusion**

In conclusion, ThebeMed has experienced a challenging year in 2010, but was nevertheless able to grow membership substantially. As in previous years, this growth has come primarily from people who were not previously part of a medical scheme. We are consequently very proud of the role the scheme has played in meeting our mandate to extend medical coverage to a broader section of the population.

We would like to express our gratitude to all of our partners and especially our administrators Thebe ya Bophelo Healthcare Administrators for their commitment to continual improvement.

2011 promises to be especially challenging in balancing our growth with the need to build our reserves whilst at the same time continuing to provide excellent service to our members. On behalf of the Board of Trustees, I would like to assure you of our continued commitment in this regard.



**VUSI MAZIBUKO**  
Chairman

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

for the year ended 31 December 2010

The Trustees are responsible for the preparation, integrity, and fair presentation of the financial statements of Thebemed Medical Scheme. The financial statements presented have been prepared in accordance with International Financial Standards (IFRS), The Medical Schemes Act of South Africa and include amounts based on judgments and estimates made by management.

The Trustees consider that in preparing the financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates.

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

The Trustees have responsibility for ensuring that accounting records are kept. The accounting records disclose with reasonable accuracy the financial position of the scheme which enable the Trustees to ensure that the financial statements comply with the relevant legislation

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

The going concern basis has been adopted in preparing the financial statements. The Trustees have no reason to believe the scheme will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These financial statements support the viability of the scheme

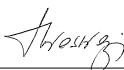
The scheme's external auditors are responsible for auditing the financial statements in terms of International Standards on Auditing and their report is presented on page 8.

The financial statements were approved by the Board of Trustees on 12 April 2011 and are signed on its behalf:



CHAIRMAN

12 April 2011



TRUSTEE



PRINCIPAL OFFICER

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**STATEMENT OF CORPORATE GOVERNANCE  
BY THE BOARD OF TRUSTEES**  
for the year ended 31 December 2010

The ThebeMed Medical Scheme is committed to the principles and practices of fairness, openness, integrity and accountability in all dealings with its stakeholders. The Trustees are proposed and elected by the members of the scheme and the employers.

#### BOARD OF TRUSTEES

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

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

#### INTERNAL CONTROL

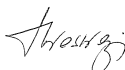
The administrators of the Scheme maintain internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability for its asset. Such controls are based on established policies and procedures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

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



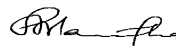
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CHAIRMAN  
12 April 2011



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TRUSTEE



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PRINCIPAL OFFICER



**STATEMENT OF FINANCIAL POSITION**

as at 31 December 2010

	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property	10 511	40 934
<b>Current assets</b>	13 344 103	16 835 491
Trade and other receivables	1 659 146	1 463 653
Cash and cash equivalents	11 684 957	15 371 838
<b>Total assets</b>	<b>13 354 614</b>	<b>16 876 425</b>
<b>FUNDS AND LIABILITIES</b>		
<b>Members' funds</b>		
Accumulated funds	6 294 664	12 085 704
<b>Current liabilities</b>	7 059 950	4 790 721
Outstanding claims provision	4 438 943	3 990 816
Trade and other payables	2 621 007	799 905
<b>Total funds and liabilities</b>	<b>13 354 614</b>	<b>16 876 425</b>

**SOLVENCY POSITION**

as at 31 December 2010

	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
Total Members' funds per Statement of financial position	6 294 663	12 085 704
Accumulated funds per Regulation 29	6 294 663	12 085 704
Gross Contributions	108 867 856	84 486 697
Solvency Ratio	5.8%	14.3%

The solvency ratio has not been met as per the Standards for the Council of Medical Schemes due to high claims experienced during the last quarter of the year, as well as the focus on membership growth to allow the scheme to build up sufficient reserves. The Scheme is aware that the increase in membership will negatively affect the reserves until such time as the increased membership contributes to reserves.

**OPERATIONAL STATISTICS**

as at 31 December 2010

<b>2010</b>	<b>Total</b>	<b>ENERGY</b>	<b>FRONTIER</b>	<b>UNIVERSAL</b>
Average number of members during the accounting period	6 753	3 314	899	2 540
Number of members at 31 December 2010	8 421	3 325	890	4 206
Average number of beneficiaries during the accounting period	17 980	11 540	3 064	3 376
Number of beneficiaries at 31 December 2010	20 324	11 614	3 053	5 657
Dependant Ratio at 31 December 2010	2.4	3.5	3.4	1.3
Net contributions per member per month (R)	1 343	1 705	2 319	527
Average net contributions per beneficiary per month (R)	505	489	681	396
Relevant healthcare expenditure per average beneficiary per month	431	436	528	324
Non-health expenses per average beneficiary per month (R)	103	98	115	109
Relevant healthcare expenditure as a percentage of gross contributions	85%	90%	77%	81%
Non-health expenses as a percentage of gross contributions	20%	20%	17%	28%
Average accumulated funds per member at year end	932.13			
Return on investments as a percentage of investments	6.8%			
Average Age	26.92	24.85	27.23	31
Pensioner Ratio	0.24%	0.10%	0.85%	0.18%

**STATEMENT OF COMPREHENSIVE INCOME**

for the financial year ended 31 December 2010

	<b>Universal Plan R</b>	<b>Frontier Plan R</b>	<b>Energy Plan R</b>	<b>Total scheme R</b>
<b>2010</b>				
Net contribution income	16 059 932	25 020 344	67 787 581	108 867 857
Relevant healthcare expenditure	(13 041 583)	(19 324 997)	(60 835 596)	(93 202 176)
Net claims incurred	(12 243 162)	(18 966 573)	(60 408 684)	(91 618 419)
Net expense on risk transfer arrangement	(798 421)	(358 424)	(426 912)	(1 583 757)
Risk transfer arrangement fees	(2 131 253)	(2 127 806)	(4 812 352)	(9 071 411)
Recoveries from risk transfer arrangements	1 332 832	1 769 382	4 385 440	7 487 654
Managed care management services	(934 666)	(974 332)	(3 230 181)	(5 139 179)
Broker service fees	(514 191)	(755 711)	(1 840 622)	(3 110 524)
Administration fees	(2 955 575)	(2 501 998)	(8 517 387)	(13 974 960)
Impairment losses on trade and other receivables	3 012	(3 482)	76 308	75 838
Net healthcare result	(1 383 071)	1 459 824	(6 559 897)	(6 483 144)
Other income - Investment income	84 435	176 221	470 718	731 374
Asset Management fees	(4 532)	(9 459)	(25 268)	(39 259)
Surplus/(deficit) for the year	(1 303 168)	1 626 586	(6 114 447)	(5 791 029)
Interest paid	-	-	(11)	(11)
Net surplus/(deficit) for the year	(1 303 168)	1 626 586	(6 114 458)	(5 791 040)

**INCOME STATEMENT**

for the financial year ended 31 December 2010

	<b>Universal Plan R</b>	<b>Frontier Plan R</b>	<b>Energy Plan R</b>	<b>Total scheme R</b>
<b>2009</b>				
Net contribution income	1 335 347	23 909 481	59 241 869	84 486 697
Relevant healthcare expenditure	(1 164 322)	(20 360 851)	(47 263 175)	(68 788 348)
Net claims incurred	(1 482 537)	(20 336 937)	(46 404 109)	(68 223 583)
Net income/(expense) on risk transfer arrangement	318 215	(23 914)	(859 066)	(564 765)
Risk transfer arrangement fees	(1 089 790)	(1 998 245)	(4 690 563)	(7 778 598)
Recoveries from risk transfer arrangements	1 408 005	1 974 331	3 831 497	7 213 833
Managed care management services	-	(905 058)	(2 949 393)	(3 854 451)
Broker service fees	(38 153)	(766 643)	(1 558 639)	(2 363 435)
Administration fees	(141 990)	(2 172 035)	(6 824 323)	(9 138 348)
Impairment losses on trade and other receivables	(3 012)	(32 226)	(76 308)	(111 546)
Net healthcare result	(12 130)	(327 332)	570 031	230 569
Other income - Investment income	19 542	349 904	866 977	1 236 423
Asset Management fees	(650)	(11 639)	(28 840)	(41 129)
Net surplus/(deficit) for the year	6 762	10 933	1 408 168	1 425 863