WE CARE

Bestmed Medical Scheme
Annual Financial Statements
for the year ended
31 December 2017

bestMed™

personally yours

Looking Forward

We Care

2017, like most years, was a year marked by many challenges and many opportunities. We successfully navigated these turbulent waters while actively improving members' wellness and increasing reserves once again. The economic downturn didn't care about member retention, and you might not care about a difficult regulatory environment – but we do. That's why, in business and in health, Bestmed is Personally Yours.

Statement of Responsibility by The Board of Trustees

The Board of Trustees is responsible for the preparation, integrity and fair presentation of the annual financial statements of Bestmed Medical Scheme. The financial statements presented on pages 26 to 95 have been prepared in accordance with International Financial Reporting Standards (IFRS), in the manner required by the Medical Schemes Act and Regulations thereto and include amounts based on judgements and estimates made by management.

The Board considers that in preparing the annual financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all International Financial Reporting Standards that they consider to be applicable have been followed.

The Board is satisfied that the information contained in the annual financial statements fairly presents the results of operations for the year and the financial position of the Scheme at year end. The Board also prepared the rest of the information included in the annual report and is responsible for both its accuracy and its consistency with the annual financial statements.

The Board is responsible for ensuring that accounting records are kept. The accounting records disclose with reasonable accuracy the financial position of the Scheme, which enables the Board to ensure that the annual financial statements comply with the relevant legislation.

Bestmed 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 annual financial statements. The Board has no reason to believe that the Scheme will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These annual financial statements support the viability of the Scheme.

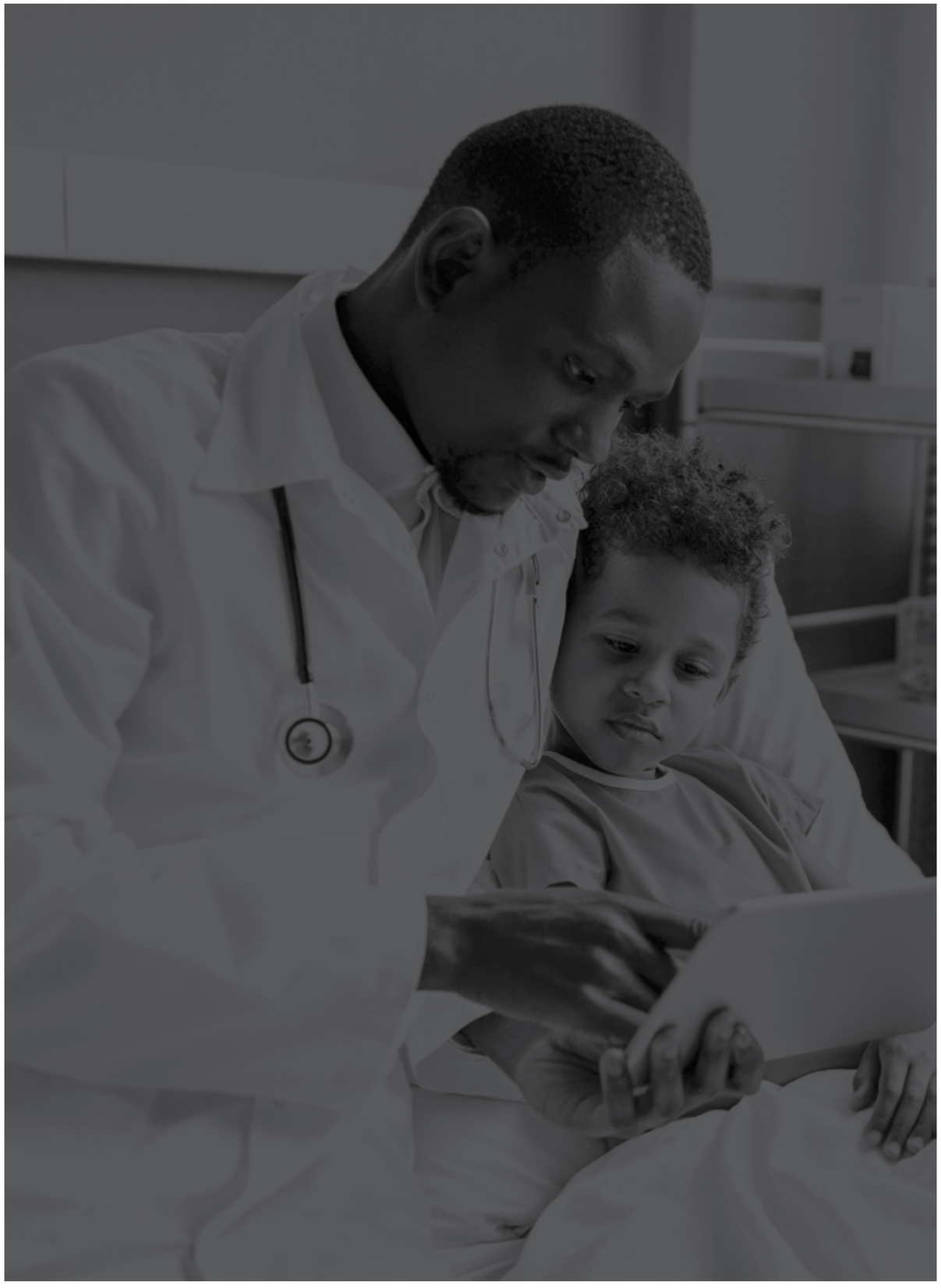
The Scheme's external auditors are responsible for auditing the financial statements in terms of International Standards on Auditing and their report is presented on pages 21 to 25.

The annual financial statements were approved by the Board of Trustees on 24 April 2018 and are signed on its behalf:

RF CAMPHOR
Chairperson

PROF PA DELPORT
Vice-Chairperson

P VAN ZYL
Acting Principal Officer



Statement of Corporate Governance by The Board of Trustees

Bestmed Medical Scheme is committed to the principles of fairness, independence, openness, integrity and accountability in all dealings with its stakeholders. The Board conducts all its affairs according to ethical values and within a recognised governance framework.

The affairs of the Scheme are managed according to the Rules of the Scheme and also adhere to all aspects of governance, as required by the Medical Schemes Act 131 of 1998, as amended. The Board is also committed to the principles of the Code of Corporate Practices and Conduct as set out in the King Report on Governance (King IV).

BOARD OF TRUSTEES

The Board of Trustees consists of member representatives, who are nominated and elected by the members of the Scheme, and appointed members, who are elected by members of the Board of Trustees. The Board meets regularly and monitors the performance of the Scheme, their own performance and that of the Board subcommittees, against agreed terms of reference and performance targets. The Board addresses a range of key issues and ensures that discussion of items of policy, strategy and performance is critical, informed and constructive.

INTERNAL CONTROL

The adequacy and effectiveness of the internal controls are evaluated by internal auditors and, as and when required, experts are consulted for professional advice.

The Scheme maintains internal controls and accounting systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain adequate accountability for its assets. Such controls are based on established policies and procedures and are implemented by trained personnel, with the appropriate segregation of duties. The Board concludes performance agreements annually with managerial staff to evaluate the outcome of existing control measures.

RF CAMPHOR
Chairperson

PROF PA DELPORT
Vice-Chairperson

P VAN ZYL
Acting Principal Officer

Report of The Board of Trustees

The Board of Trustees hereby presents its report for the year ended 31 December 2017.

1. DESCRIPTION OF THE MEDICAL SCHEME

1.1 Terms of Registration

Bestmed Medical Scheme ("the Scheme") is a not-for-profit, open medical scheme, registered in terms of the Medical Schemes Act 131 of 1998, as amended ("Medical Schemes Act"), and complies with the Regulations made in terms of section 67 of the Act, registration number 1252. The Scheme is self-administered and the administration accreditation number is 62. The accreditation is valid till 6 December 2018.

1.2 Benefit Options

The Scheme offered thirteen benefit options for the year under review, ten original options and three Efficiency Discounted Options (EDO's). The EDO's are included in the original ten options for reporting purposes.

- Beat1
- Beat1 Network - EDO
- Beat2
- Beat2 Network - EDO
- Beat3
- Beat3 Network - EDO
- Beat4
- Pace1
- Pace2
- Pace3
- Pace4
- Pulse1
- Pulse2

1.3 Savings Plan

In order to provide a facility for medical scheme members to set funds aside to meet future healthcare costs not covered in the benefit options, the Board of Trustees has made the savings plan option available for some of its benefit options.

Members pay an agreed sum into this savings account. These amounts differ per option and comprise the following percentage of gross contributions:

Beat1	None
Beat1 Network - EDO	None
Beat2	17%
Beat2 Network - EDO	17%
Beat3	17%
Beat3 Network - EDO	17%
Beat4	15%
Pace1	20%
Pace2	15%
Pace3	15%
Pace4	3%
Pulse1	None
Pulse2	None

Savings contributions are refundable upon a member enrolling in another benefit option or medical scheme without a personal medical savings account, or does not enrol in another medical scheme, in which case the money will be transferred to the member in terms of the Scheme Rules.

Unexpended savings amounts are accumulated for the long-term benefit of the member. Interest is payable on credit balances equal to the interest earned on cash and cash equivalents and money market funds invested and no interest is charged on savings advances to members.

The liability to the members in respect of the savings plan is reflected as a current liability in the financial statements, but constitute trust money and is managed on the members' behalf in terms of the Scheme Rules. All unspent personal medical savings balances are invested in a separate trust account and do not form part of the assets of the Scheme. This treatment of members savings accounts is consistent with prior years accounting treatment in line with guidance provided by The Council for Medical Schemes ("CMS") which allows either for the recognition of members savings as assets of the Scheme or as member's funds.

Where a member cannot be traced within five years of the member leaving the Scheme and after all reasonable attempts at tracing the member have been made, any unclaimed personal medical savings account balances must be paid to the Guardian's Fund. Due to the incompatibility of the information required by the Guardian Fund and that supplied by the Scheme, no payments were made to the Guardian Fund in 2016 and 2015. All payments made in 2014 and prior periods were paid back to the Scheme by the Guardian Fund in 2014. The Scheme awaits further directive from The Council for Medical Schemes ("CMS") pending their investigation as to the further treatment of these funds.

1. DESCRIPTION OF THE MEDICAL SCHEME (CONTINUED)

1.4 Risk Transfer Arrangements

The Scheme had the following risk transfer arrangements in 2017:

CareCross provided primary healthcare services to members on the Pulse1 option until 31 December 2016. The claims incurred and recoveries received were calculated based on utilisation figures obtained from CareCross. The net income on the risk transfer arrangement for 2017 was R0 (2016: R5 165 316).

OneCare provided out-of-hospital healthcare services to members on the Pulse2 option until 31 December 2016. Claims incurred and recoveries received were calculated based on utilisation figures obtained from OneCare. The net income on the risk transfer arrangement for 2017 was R0 (2016: R278 065).

The Scheme has terminated agreements with CareCross and OneCare on 31 December 2016 and assumed the responsibility for the provision of these healthcare services effective 1 January 2017.

ER24 provided transportation or emergency medical response to the Scheme's members. Claims incurred and recoveries received were calculated based on utilisation figures obtained from ER24. The net income on the risk transfer arrangement was R5 722 441 (2016: R5 041 846).

Preferred Provider Negotiators provided members on the Beat3 and Beat4 and all the Pace options with optical services which include consultations, frames, lenses and contact lenses. Claims incurred and recoveries received were calculated based on utilisation figures obtained from Preferred Provider Negotiators. The net income on the risk transfer arrangement was R9 678 903 (2016: R6 329 140)

Refer to Note 18 in the annual financial statements for further disclosure.

2. MANAGEMENT

2.1 Board of Trustees in office during the year under review:

2.1.1 Elected by the members	Term of Office
RF Camphor (Chairperson)	2015 - 2020
Prof PA Delport (Vice-Chairperson)	2015 - 2020
JP Lachmann Resigned 12 February 2017	2016 - 2018
E Marx	2016 - 2020
Prof JCW van Rooyen	2016 - 2018
Rev JH Windell	2015 - 2018

2.1.2 Appointed	Term of Office
LB Dlamini	2015 - 2020
GS du Plessis - CA(SA)	2015 - 2018
PM Kennedy	2015 - 2020
CM Mowatt - CA(SA)	2015 - 2020
S Stevens	2015 - 2018

2.2 Principal Officer

AM la Grange
Left employment 31 March 2017

Acting Principal Officer

P van Zyl
Effective 01 April 2017

2.3 Registered office address and postal address

Bestmed Medical Scheme
Block A
Glenfield Office Park
361 Oberon Avenue
Faerie Glen
Pretoria
0081

PO Box 2297
PRETORIA
0001

2.4 Investment Advisors

Willis Towers Watson (Pty) Ltd
Illovo Edge
1 Harries Road
Illovo
Johannesburg
2196

FSP number: 2545

P.O Box 55509
Northlands
Johannesburg
2116

2.5 Investment Managers

Coronation Asset Management (Pty) Ltd
Seventh Floor
Montclare Place
Cnr Campground and Main Road
Claremont
7708

FSP number: 548

PO Box 44684
Claremont
Cape Town
7735

Prudential Investment Managers SA (Pty) Ltd
Seventh Floor
Protea Place
40 Dreyer Street
Claremont
7708

FSP number: 45199

PO Box 44813
Claremont
Cape Town
7735

Allan Gray Life Limited
1 Silo Square
V&A Waterfront
Cape Town
8001

FSP number: 6663

PO Box 51318
V&A Waterfront
Cape Town
8002

Investec Asset Management (Pty) Ltd
36 Hans Strijdom Avenue
Foreshore
Cape Town
8001

FSP number: 587

PO Box 1655
Cape Town
8000

Aluwani Capital Partners (Momentum)
EPPF Office Park
24 Georgian Crescent East
Bryanston East
2152

FSP Number: 46196

Private Bag X 75
Bryanston
2021

2.6 Actuaries

Insight Actuaries & Consultants
Ground Floor
Block Central J
400 Central Park
16th Road
Midrand
1682

Private Bag X17
Halfway House
1685

2.7 Auditors

PricewaterhouseCoopers Inc.
4 Lisbon Lane
Waterfall City
Jukskei view
2090

Private Bag X36
Sunninghill
2157

3. INVESTMENT STRATEGY OF THE SCHEME

The Scheme's investment objectives are to maximise the return on its investments on a long-term basis at limited risk. The investment strategy takes into consideration the limitations imposed by the Medical Schemes Act and those imposed by the Board of Trustees.

The Investment Committee monitors the performance of the Scheme's investments in conjunction with the Scheme's investment advisors to ensure that maximum returns are achieved. Expert advice is obtained from Willis Towers Watson to assist in developing an appropriate investment strategy and portfolio.

Given that the central purpose of the Scheme is to provide medical benefits to members, rather than to maximise investment returns, a moderate risk appetite is adopted. The Investment Committee believes the primary objective the Scheme needs to manage, is to earn a sufficient investment return in excess of inflation over a five-year period, without losing focus on downside capital protection over a one-year period. The Committee believes that risk should be managed in part by holding a diversified portfolio, with a significant proportion of the assets providing returns that offer protection against inflation over the longer term.

4. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

4.1 SOLVENCY RATIO

The solvency ratio is calculated on the following basis:

	2017	2016
	R'000	R'000
Total members' funds per statement of financial position	1 612 171	1 333 117
Cumulative losses on remeasurement to fair value of financial instruments and property and equipment included in accumulated funds	500	500
Balance at beginning of year	500	600
Unrealised gain on revaluation of investment property in the statement of comprehensive income	-	(100)
Available-for-sale fair value reserve	(134 296)	(88 874)
Accumulated funds as per Regulation 29	1 478 374	1 244 744
Gross contributions	5 033 075	4 630 884
Solvency ratio	**29,37%**	**26,88%**

4.2 Results of Operations

The results of the operation of the Scheme are set out in the annual financial statements and the Board of Trustees believe that no further clarification is required. The objectives, policies and procedures for managing insurance risk and the method used to manage those risks are included in Note 38 to the annual financial statements.

4.3 Funds and Reserves Accounts

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

4.4 Outstanding Claims

Movements on the outstanding claims provision are set out in Note 14 to the annual financial statements. The basis of calculation of the outstanding claims provision is discussed in Note 38 to the annual financial statements. Following the implementation of the new administration system on 1 May 2017, the manner in which the Scheme defined and captured service dates relating to hospital events has changed. The Scheme recognised this as a change in accounting estimate as this impacts the calculation of the IBNR provision resulting from these claim patterns.

5. ACTUARIAL SERVICES

The Scheme's actuaries have been consulted in the determination of the contribution and benefit levels, the outstanding claims provision as well as the IAS 19 retirement benefit obligations.

6. NON-COMPLIANCE WITH MEDICAL SCHEMES ACT 131 OF 1998, AS AMENDED

6.1 Non-compliance with Section 26(7) of the Medical Schemes Act - Contributions not received within three days of becoming due

There were instances where the Scheme, in absence of any agreement or understanding, received contributions more than three days after due date. Contribution receivables are amounts receivable from individuals or employer groups and are collected by debit orders or cash payments. If not received within three days of due date, benefits of individuals are suspended and terminated if not received within 60 days. Employer group discrepancies are actively monitored and rectified on a monthly basis.

6.2 Non-compliance with Regulation 28(5) - Payment of commission on receipt of contribution

Regulation 28(5) of the Act states that, payment by a medical scheme to a broker in terms of sub regulation (2) shall be made on a monthly basis and upon receipt by the scheme of the relevant monthly contribution in respect of that member.

In certain instances where the employer and employee contributions are paid separately to the Scheme, the broker commission is paid before both employee and employer contribution has been received.

The Scheme management will ensure the necessary changes to the IT systems to ensure broker commissions are only paid once the full premium is received, irrespective of the source of payment of the premium.

6.3 Non-compliance with Section 33(2)(b) of the Medical Schemes Act - Option self-sufficiency in terms of membership and financial performance be financially sound

The Act stipulates that a benefit option shall be self-supporting in terms of membership and financial performance. During the year under review five benefit options of the Scheme, namely Beat3, Pace2, Pace3, Pace4 and Pulse1 made a net healthcare deficit.

After accounting for other income Pace2, Pace4 and Pulse1 options showed a net deficit.

The Scheme monitors the results of all options and evaluates different strategies to improve the financial outcomes of all options. The different financial results reflect the different disease burdens in each option, among many other factors.

The strategy on sustainability of options has to balance short- and long-term financial considerations, with fairness to both healthy and sick members and with continued affordability of cover for members on different levels of income and needs.

The Scheme remains committed to comply with the applicable legislation, as far as possible, but also focuses on the overall stability and financial position of the Scheme as a whole and not only on individual options.

6.4 Non-compliance with Section 35(6)(a) of the Medical Schemes Act - Borrowings

Section 35(6)(a) states that "A medical scheme shall not encumber its assets."

Bestmed registered as a financial service provider with the Financial Services Board (FSB). Registration number 44058. The FSB required a guarantee of R1 million in terms of section 8(7) of the FSB Board notice 106 of 2008.

In addition, the terms of the Scheme building lease agreement required a guarantee to an amount of R2,3 million.

The Scheme's banker issued these guarantees as part of the Scheme's facilities and required no additional security.

Application for the renewal of guarantees exemption were lodged with the Council in August 2017. At the date of the report the Council has not granted the Scheme exemption for the guarantees to date.

6.5 Non-compliance with Section 35(8)(a) of the Medical Schemes Act - Investments in employers, administrators or any arrangement associated with the medical scheme

Section 35(8) of the Act states that "A medical scheme shall not invest any of its assets in the business of or grant loans to (a) An employer who participates in the medical scheme or any administrator or any arrangement associated with the medical scheme; (b) any other medical scheme; (c) any administrator; and (d) any person associated with any of the above."

Due to some of the Scheme's employer groups being listed on the JSE, investments were made in certain of its employer groups listed on the JSE through the portfolios of the investment products the Scheme utilises. This is also applicable to JSE listed administrators.

The Council for Medical Schemes has granted the Scheme an exemption from section 35(8) of the Medical Schemes Act.

6. NON-COMPLIANCE WITH MEDICAL SCHEMES ACT 131 OF 1998, AS AMENDED (CONTINUED)

6.6 Non-compliance with Section 59(2) of the Medical Schemes Act - Claims not paid within 30 days

Section 59(2) of the Medical Schemes Act states that "claims submitted to the scheme should be paid out within 30 days after the day on which the claim was received".

There were certain claims paid after 30 days from the date that the claims were received.

Claims received at Bestmed are assessed, rejected, paid or pended within 30 days of receipt. There are various reasons that a claim will be pended where further information, assistance or motivation is required. All related claims will pend along with the authorisation and will be paid or rejected once the authorisation is finalised, pending the outcome. Pend reports are also reviewed by the claims supervisors to follow up on long outstanding pended authorisations with the relevant department.

6.7 Non-compliance with Section 65(3) of the Medical Schemes Act - Broker commission paid to an unaccredited broker

Section 65(3) of the Medical Schemes Act states that "No person shall be compensated for providing services relating to the introduction or admission of a member to a medical scheme in terms of subsection (1) unless the Council has, in a particular case or in general, granted accreditation to such a person".

One instance was noted where commission was paid to a broker who was not accredited. This was an administration oversight as there is a system in place to prevent payment of commission to unaccredited brokers. The Scheme does, as a courtesy, issue brokers with written notification at least 3 months before expiry of their accreditation with CMS to renew. A greater effort will be made to ensure that only accredited brokers are remunerated.

6.8 Non-compliance with Regulation 10(6) of the Act - Personal Medical Savings accounts

Regulation 10(6) of the Act states that "The funds in a member's medical savings account shall not be used to pay for the cost of a prescribed minimum benefit."

It was noted that for certain prescribed minimum benefit "PMB" claims, where a co-payment was applicable, that the payments were made from the member's savings account. This occurred when a member utilised the Bestmed Application to fund their co-payments.

The Bestmed application has been modified to block such instances from re-occurring.

7. RELATED PARTY TRANSACTIONS

Refer to related parties disclosure in Note 33 to the annual financial statements, and trustee remuneration disclosure in Note 32 to the annual financial statements.

8. CORPORATE GOVERNANCE

The Scheme is committed to the principles and practice of fairness, independence, openness, integrity and accountability in all dealings with its stakeholders. The Scheme adheres fully to all aspects of governance as required by the Medical Schemes Act. The Board of Trustees is also committed to the principles defined in the Code of Corporate Practices and Conduct as set out in the King III Report on Governance.

The Board is currently implementing the requirements of King IV which was released on 01 November 2016 and is effective in respect of financial years commencing on or after 01 April 2017.

During 2017 the Board utilised the Committees identified below to oversee the Scheme's operations. The Committees do not assume the functions of management, which remain the responsibility of the Principal Officer and other members of senior management. Comments on these Committees are reflected below.

AUDIT COMMITTEE

The Scheme has an Audit Committee in accordance with the provisions of the Medical Schemes Act.

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

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 five members of which two are members of the Board of Trustees. The majority of the members, including the Chairperson, are not officers of the Scheme. Except for two "in committee" meetings, the Principal Officer, internal and external auditors, attend all Audit Committee meetings and have unrestricted access to the Chairperson of the Committee.

The Committee met three times during the year and comprised the following members:

GS du Plessis - CA(SA)	Trustee member
CM Mowatt - CA(SA)	Trustee member
G Nzalo - CA(SA)	Independent member Chairperson Effective from 02 June 2017
JFJ Scheepers - CA(SA)	Independent member Chairperson Term of Office expired on 02 June 2017
H Wolmarans - CA(SA)	Independent member
S Thomas - CA(SA)	Independent member Effective from 11 July 2017

RISK MANAGEMENT COMMITTEE

The role of the Committee is to ensure that the Scheme has implemented an effective policy and plan for risk management that will enhance the Scheme's ability to achieve its strategic objectives and that disclosure regarding risk is comprehensive, timely and relevant. The Committee is mandated by the Board of Trustees by means of formal terms of reference as to its membership, authority and duties. The Principal Officer, Chairperson of the Audit Committee, and senior management attend meetings of the committee.

The Committee met three times during the year and comprised the following members:

PM Kennedy	Trustee member Chairperson
CM Mowatt - CA(SA)	Trustee member
JFJ Scheepers - CA(SA)	Independent member Term of Office expired on 02 June 2017
S Stevens	Trustee member
G Nzalo - CA(SA)	Independent member Effective from 02 June 2017

INVESTMENT COMMITTEE

The role of the Committee is to advise the Board of Trustees and Management on the best possible investment of the Scheme's resources available for that purpose, amendments to, or the re-investment of existing investments and possible steps that may be considered in respect of the investment of available funds. The Committee is mandated by the Board of Trustees by means of formal terms of reference as to its membership, authority and duties. The Principal Officer and senior management attend meetings of the Committee.

The Committee met four times during the year and comprised the following members:

GS du Plessis - CA(SA)	Trustee member
CM Mowatt - CA(SA)	Trustee member Chairperson
JH Windell	Trustee member
PM Kennedy	Trustee member Effective from 02 August 2017
E Marx	Trustee member Effective from 02 August 2017

REMUNERATION COMMITTEE

The role of the Committee is to ensure that the remuneration policy and practices are regularly reviewed, that the Scheme remunerates the Board of Trustees, senior management and its employees fairly and responsibly and that disclosure of trustee and senior management remuneration is accurate, complete and transparent. The Committee is mandated by the Board of Trustees by means of formal terms of reference as to its membership, authority and duties.

The Committee met four times during the year and comprised the following members:

Prof PA Delport	Trustee member Chairperson
RF Camphor	Trustee member
LB Dlamini	Trustee member

DISPUTE COMMITTEE

The role of the Dispute Committee is to adjudicate disputes that may arise between a member, prospective member, former member or person claiming against the Scheme. The Committee is mandated by the Board of Trustees by means of formal terms of reference as to its membership, authority and duties.

It was not necessary for the Committee to meet during the year. The Chairperson is to be elected as and when the need arises. The Committee comprised:

Dr D Kapp	Independent member
Adv JJ Labuschagne	Independent member
F Vorster	Independent member

9. EVENTS SUBSEQUENT TO THE STATEMENT OF FINANCIAL POSITION DATE

No events were noted, other than those disclosed on the Board of Trustees Report Note 10, took place between the Statement of Financial Position as at 31 December 2017 and the date of this report.

10. GOVERNANCE IN TERMS OF THE MEDICAL SCHEMES ACT 131 OF 1998, AS AMENDED

Council for Medical Scheme Investigation

During the 2016 financial period and following the forensic investigation carried out by KPMG in 2015, the Council for Medical Schemes (CMS) decided to initiate a further inspection in terms of section 44 of the Medical Schemes Act against Bestmed. The inspection addresses exactly the same subjects as the forensic investigation ordered by the Board of Trustees in 2015.

The CMS appointed an external investigator who completed his work and provided a draft report to the CMS. The CMS required Bestmed to pay the full cost of this investigation, which was duly done as instructed.

A copy of the draft report was presented to the Board of Trustees by the CMS late in 2017 with the request to comment on the content thereof. The Bestmed Board of Trustees indeed made detailed presentations on various matters identified in the content of the report, focused on both some of the findings as well as some of the recommendations made in the draft report, which were submitted in writing to the CMS early in 2018.

The Scheme now awaits the final version of the completed report together with the findings and possibly some directives from the CMS, which will be attended to as required when received.

11. TRUSTEE MEETING ATTENDANCE

The following schedule sets out Board of Trustees meeting attendances and attendances by members of Board subcommittees. Trustee remuneration is disclosed in Note 32 to the annual financial statements.

A - Total possible number of meetings that could have been attended.

B - Actual number of meetings attended.

Trustee members	Board meetings		Audit Committee		Risk Committee		Investment Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B	A	B
RF Camphor	8	7							4	4
Prof PA Delport	8	7							4	4
LB Dlamini	8	7							4	3
GS du Plessis	8	7	3	3			4	4		
PM Kennedy	8	8			3	3	2	2		
E Marx	8	8					2	2		
CM Mowatt	8	8	3	3	3	3	4	4		
S Stevens	8	8			3	3				
Prof JCW van Rooyen	8	8								
Rev JH Windell	8	8					4	4		

Independent members	Audit Committee		Risk Committee	
	A	B	A	B
G Nzalo - CA(SA) Chairperson Effective from 02 June 2017	3	3	1	1
JFJ Scheepers - CA(SA) Term of office expired on 02 June 2017	2	2	2	2
H Wolmarans - CA(SA)	3	3		
S Thomas - CA(SA) Effective from 11 July 2017	1	1		

OPERATIONAL STATISTICS PER BENEFIT OPTION

2017	Beat1	Beat2	Beat3	Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
Members at 31 December	5 851	24 811	7 159	4 920	29 129	10 035	6 000	2 863	3 156	781	**94 705**
Average number of members for the accounting period	5 739	24 246	7 211	5 047	29 330	10 136	6 062	2 929	3 252	807	**94 758**
Dependants at 31 December	6 141	25 689	7 579	5 479	41 798	8 259	5 945	1 623	1 992	172	**104 677**
Average number of dependants for the accounting period	6 097	25 392	7 584	5 642	41 728	8 412	6 040	1 690	2 085	185	**104 854**
Average beneficiaries for the accounting period	11 837	49 638	14 795	10 689	71 058	18 548	12 102	4 618	5 337	992	**199 612**
Ratio of average dependants at 31 December	1.06	1.05	1.05	1.12	1.42	0.83	1.00	0.58	0.64	0.23	**1.11**
Average age of beneficiaries for the accounting period	35.02	29.64	36.48	43.52	33.23	52.16	51.74	61.24	42.83	77.50	**37.14**
Ratio of beneficiaries older than 65 years	8.18%	3.15%	11.72%	18.26%	7.28%	34.20%	34.26%	48.97%	20.32%	88.56%	**12.94%**
Risk contribution per average member per month	2 080	2 014	3 045	4 966	3 868	5 611	6 465	8 599	2 424	5 324	**3 743**
Risk contribution per average beneficiary per month	1 009	984	1 484	2 345	1 597	3 066	3 239	5 453	1 477	4 330	**1 777**
Healthcare expenditure per average member per month	1 682	1 608	2 712	4 091	3 064	5 518	6 160	8 582	2 550	4 883	**3 265**
Healthcare expenditure per average beneficiary per month	816	785	1 322	1 931	1 265	3 015	3 086	5 442	1 554	3 972	**1 550**
Relevant healthcare expenditure as a percentage of risk contributions	80.8%	79.8%	89.1%	82.4%	79.2%	98.3%	95.3%	99.8%	105.2%	91.7%	**87.2%**
Non-healthcare expenditure per average member per month	346	351	357	337	375	355	377	348	340	303	**359**
Non-healthcare expenditure per average beneficiary per month	168	172	174	159	155	194	189	221	207	246	**171**
Non-healthcare expenditure as a percentage of risk contributions	16.61%	17.43%	11.74%	6.78%	9.71%	6.33%	5.82%	4.05%	14.01%	5.68%	**9.60%**

2016	Beat1	Beat2	Beat3	Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
Members at 31 December	5 703	23 579	7 186	5 574	28 577	10 403	6 238	3 221	3 588	872	**94 941**
Average number of members for the accounting period	5 647	23 108	7 170	5 617	28 802	10 533	6 278	3 296	3 732	903	**95 085**
Dependants at 31 December	6 065	24 850	7 673	6 263	40 712	9 008	6 419	1 973	2 386	222	**105 571**
Average number of dependants for the accounting period	5 962	24 359	7 526	6 312	40 767	9 232	6 527	2 070	2 514	241	**105 509**
Average beneficiaries for the accounting period	11 608	47 467	14 696	11 929	69 569	19 765	12 805	5 366	6 246	1 143	**200 595**
Ratio of average dependants at 31 December	1.06	1.05	1.05	1.12	1.42	0.88	1.04	0.63	0.67	0.27	**1.11**
Average age of beneficiaries for the accounting period	33.99	28.76	36.39	42.82	33.04	50.51	50.13	59.51	41.00	74.55	**36.97**
Ratio of beneficiaries older than 65 years	6.51%	2.88%	12.10%	17.12%	6.84%	31.74%	31.36%	45.76%	18.48%	85.28%	**12.63%**
Risk contribution per average member per month	1 898	1 844	2 766	4 326	3 488	5 079	5 861	7 810	2 190	4 874	**3 434**
Risk contribution per average beneficiary per month	923	898	1 350	2 037	1 444	2 707	2 874	4 797	1 308	3 848	**1 628**
Healthcare expenditure per average member per month	1 495	1 506	2 337	4 275	2 837	4 874	5 143	7 667	2 023	5 787	**3 022**
Healthcare expenditure per average beneficiary per month	727	733	1 140	2 013	1 175	2 598	2 522	4 709	1 209	4 568	**1 433**
Relevant healthcare expenditure as a percentage of risk contributions	78.8%	81.7%	84.5%	98.8%	81.3%	96.0%	87.7%	98.2%	92.4%	118.7%	**88.0%**
Non-healthcare expenditure per average member per month	327	332	336	315	353	330	349	320	322	284	**337**
Non-healthcare expenditure per average beneficiary per month	159	162	164	148	146	176	171	197	192	224	**160**
Non-healthcare expenditure as a percentage of risk contributions	17.22%	18.03%	12.16%	7.27%	10.13%	6.50%	5.96%	4.10%	14.69%	5.82%	**9.82%**

OPERATIONAL STATISTICS FOR THE SCHEME

	2017	2016
Average accumulated funds per average member at 31 December	15 543	13 369
Average accumulated funds per average beneficiary at 31 December	7 367	6 333
Return on investments as a percentage of investments	6.21%	5.96%
Administration and other operative expenses as a percentage of gross contributions	6.54%	6.63%

Independent Auditor's Report

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Independent Auditor's Report

To the Members of Bestmed Medical Scheme

Report on the Financial Statements

Opinion
We have audited the financial statements of Bestmed Medical Scheme (the Scheme), set out on pages 26 to 95, which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, the statement of changes in members' funds and reserves and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Scheme as at 31 December 2017, 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.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Scheme in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter	How our audit addressed the key audit matter
Outstanding claims provision The outstanding claims provision ("IBNR") of R 155,649,426 at year-end as described in Note 14 to the financial statements, is a provision recognised for the estimated cost of healthcare benefits that have been incurred prior to year-end but that were only reported to the Scheme after year-end. The outstanding claims provision is calculated by the Scheme's actuaries which is reviewed by management and the Audit and Risk Committee and recommended to the Board of Trustees for approval. The Scheme's actuaries use an actuarial model based on the Scheme's actual claim development patterns throughout the year to project the year-end provision. This model applies the Basic Chain Ladder (BCL) method. The claim service date, processing date and amount are used to derive claim development patterns. These historical patterns are then used to estimate the outstanding claims provision. We identified this as a matter of most significance to the audit because of the uncertainty in the projected claims pattern. A change in the projected claims pattern can cause a material change to the amount of the provision.	For a sample of actual claims received in the 2017 financial year, we tested the accuracy of the service and process dates and we identified no inconsistencies. We made use of various data analytics to substantively test the relevant claim rules against which the actual claims received by the Scheme are assessed for completeness and validity of actual claims data. The claims data that was included in the Scheme's actuarial model was agreed to the actual claims data that was tested above in the member administration system with no material differences noted. We obtained an understanding from the Scheme's actuaries and Scheme's management regarding the process to calculate the outstanding claims provision. The actuarial model applied by the Scheme is generally applied within the medical scheme industry. To test the reasonableness of the Scheme's estimation process we compared actual claim results in the current year to the prior year provision and no material differences were noted. We have evaluated management's experts by assessing their competence, capability, and objectivity and noted no aspects requiring further consideration. We also obtained the outstanding claims provision report from the Scheme's actuaries and assessed whether the inputs, assumptions, methodology and findings per the report were consistent with our testing above. Based on the results of our assessment we accepted the inputs, assumptions, methodology and findings as reasonable.

Other Information
The Scheme's trustees are responsible for the other information. The other information comprises the information included in the Bestmed Medical Scheme Annual Financial Statements for the year ended 31 December 2017, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Scheme's Trustees for the Financial Statements
The Scheme's trustees are responsible for the preparation and fair presentation of the 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 Scheme's trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Scheme trustees are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Scheme's trustees either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Scheme's trustees.
- Conclude on the appropriateness of the Scheme's trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Scheme's trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the Scheme's trustees, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

Section 33 (2)(b) of the Medical Schemes Act of South Africa: Certain benefit options were not self-supporting in terms of financial performance, as disclosed in note 36 of the financial statements

PricewaterhouseCoopers Inc.
Director: JJ Grové
Registered Auditor
Johannesburg
25 April 2018

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

	Notes	2017	2016
		R	R
ASSETS			
Non-current assets		**1 336 416 948**	**1 092 162 000**
Property and equipment	2	30 984 754	19 825 250
Investment property	3	1 600 000	1 600 000
Intangible assets	4	6 568 764	2 279 886
Available-for-sale investments	5	1 297 263 431	1 068 456 864
Current assets		**1 225 328 542**	**1 069 541 074**
Available-for-sale investments		834 472 321	728 228 738
Scheme	5	353 683 193	285 214 835
Personal medical savings account trust monies invested	5	480 789 128	443 013 903
Loans and receivables	6	-	-
Trade and other receivables	7	70 262 212	87 422 006
Assets held for sale	9	-	-
Cash and cash equivalents		320 594 010	253 890 330
Scheme	10	160 446 441	130 581 559
Personal medical savings account trust monies invested	10	160 147 569	123 308 771
Total assets		**2 561 745 490**	**2 161 703 074**
FUNDS AND LIABILITIES			
Members' funds		**1 612 170 602**	**1 333 117 471**
Accumulated funds		1 477 874 327	1 244 243 611
Available-for-sale fair value reserve		134 296 275	88 873 860
Non-current liabilities		**12 215 765**	**13 333 401**
Retirement benefit obligations	11	12 215 765	13 333 401
Current liabilities		**937 359 122**	**815 252 202**
Personal medical savings account trust liability	13	660 990 469	583 457 231
Outstanding claims provision	14	155 649 426	109 154 663
Trade and other payables	15	120 719 227	122 640 308
Total funds and liabilities		**2 561 745 490**	**2 161 703 074**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017	2016
		R	R
Risk contribution income	16	**4 256 038 032**	**3 918 440 700**
Relevant healthcare expenditure		**(3 712 106 868)**	**(3 448 712 203)**
Net claims incurred	17	(3 727 508 212)	(3 465 526 570)
Risk claims incurred	17	(3 628 769 610)	(3 373 294 099)
Third party claims recoveries	17	7 283 907	7 936 003
Accredited managed healthcare services	17	(106 022 510)	(100 168 473)
Net income/(expense) on risk transfer arrangements		15 401 344	16 814 367
Risk transfer arrangement premiums paid	18	(84 190 590)	(118 042 778)
Recoveries from risk transfer arrangements	18	99 591 934	134 857 146
Gross healthcare result		**543 931 164**	**469 728 498**
Broker service fees and other distribution fees	19	(70 458 474)	(74 915 428)
Administration and other operative expenses	20	(328 981 752)	(306 915 065)
Net impairment losses on healthcare receivables	21	(9 033 687)	(2 899 348)
Net healthcare result		**135 457 250**	**84 998 657**
Other income		**154 001 238**	**125 389 491**
Investment income		152 315 255	122 291 164
Scheme	22	110 684 964	86 770 481
Personal medical savings account trust monies invested	22;26	41 630 290	35 520 683
Sundry income	23	1 685 984	3 098 327
Other expenditure		**(55 827 772)**	**(49 106 352)**
Interest paid on personal medical savings trust accounts	24	(41 630 290)	(35 520 683)
Interest paid	25	-	(87 566)
Asset management fees	26	(6 678 621)	(6 184 931)
Own facility net expenditure	27	(7 497 681)	(7 244 956)
Other losses	28	(21 180)	(68 215)
NET SURPLUS FOR THE YEAR		**233 630 717**	**161 281 796**
Other comprehensive income		**45 422 414**	**21 204 524**
Fair value adjustment on available-for-sale investments		57 091 454	25 436 976
Reclassification adjustment on realised gains	22	(11 669 040)	(2 735 157)
Impairment recognised against revaluation reserve	9	-	(1 497 295)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**279 053 131**	**182 486 320**

STATEMENT OF CHANGES IN MEMBERS' FUNDS AND RESERVES FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Accumulated funds	Revaluation reserve	Available-for-sale fair value reserve	Total members' funds
		R	R	R	R
Balance as at 31 December 2015		**1 082 961 815**	**1 497 295**	**66 172 041**	**1 150 631 151**
Net surplus for the year		161 281 796	-	-	161 281 796
Impairment recognised against revaluation reserve	9	-	(1 497 295)	-	(1 497 295)
Other comprehensive income		-	-	22 701 819	22 701 819
Fair value adjustment on available-for-sale investments		-	-	25 436 976	25 436 976
Realised gains on available-for-sale investments	5;22	-	-	(2 735 157)	(2 735 157)
Balance as at 31 December 2016		**1 244 243 611**	**-**	**88 873 860**	**1 333 117 471**
Net surplus for the year		233 630 717	-	-	233 630 717
Other comprehensive income		-	-	45 422 415	45 422 415
Fair value adjustment on available-for-sale investments		-	-	57 091 454	57 091 454
Realised gains on available-for-sale investments	5;22	-	-	(11 669 040)	(11 669 040)
Balance as at 31 December 2017		**1 477 874 327**	**-**	**134 296 275**	**1 612 170 602**

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017	2016
		R	R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from members - contributions	31	4 268 081 932	3 910 608 308
Cash receipts from members and providers	31	(6 337 448)	(3 669 016)
Cash receipts from members and providers - other loans and receivables	31	2 419 656	(8 474 790)
Cash paid to providers and employees - claims	31	(3 679 401 543)	(3 436 862 899)
Cash paid to providers and employees - non healthcare expenditure	31	(387 532 626)	(372 078 293)
Increase in personal savings account liabilities		77 533 239	44 700 627
Cash generated from operations		274 763 210	134 223 937
Interest paid		(41 630 290)	(35 608 249)
Scheme	25	-	(87 566)
Interest paid on members' personal medical savings account trust monies	24	(41 630 290)	(35 520 683)
Net cash flows from operating activities		**233 132 920**	**98 615 688**
CASH FLOW FROM INVESTING ACTIVITIES			
Increase in available-for-sale investments	5	(240 183 469)	(61 646 756)
Increase in personal medical savings trust available-for-sale investments	5	(37 775 226)	(92 732 195)
Purchase of property and equipment	2	(25 341 285)	(7 020 406)
Proceeds from disposal of property and equipment	2;23;28	982 600	129 455
Disposal of asset held for sale	9;23	-	3 199 500
Increase in intangible assets	4	(4 758 075)	(2 279 886)
Interest income		123 202 195	101 856 239
Scheme	22	81 571 905	66 335 556
Interest received on personal medical savings account trust monies invested	22;26	41 630 290	35 520 683
Dividend income	22	17 444 020	17 699 768
Decrease in loans and receivables	6	-	21 558
Net cash flows utilised in investing activities		**(166 429 240)**	**(40 772 723)**
Net increase in cash and cash equivalents		66 703 680	57 842 964
Cash and cash equivalents at beginning of year	10	253 890 330	196 047 366
CASH AND CASH EQUIVALENTS AT END OF YEAR	10	**320 594 010**	**253 890 330**
CASH AND CASH EQUIVALENTS		**320 594 010**	**253 890 330**
Scheme		160 446 441	130 581 559
Personal medical savings account trust monies invested		160 147 569	123 308 771

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

1. ACCOUNTING POLICIES

Bestmed Medical Scheme is an open medical scheme registered under the Medical Schemes Act 131 of 1998, as amended. The Scheme is self-administered and offers the insurance of hospital, chronic illness and day-to-day cover benefits.

1.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as defined by IAS 1 and the interpretations issued by the IFRS Interpretations Committees, as applicable in South Africa, and in the manner required by the Medical Schemes Act 131 of 1998, as amended.

The principal accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all years presented, 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 Scheme's accounting policies. The areas involving a higher degree of judgement, or areas where estimates are significant to the annual financial statements, are disclosed in Note 34.

The financial statements are prepared on a going concern basis using the historical cost convention, except for certain financial assets and liabilities which include:

- Available-for-sale financial assets at fair value;
- Financial instruments classified as originated loans carried at amortised cost; and
- Investment property.

All monetary information and figures presented in these financial statements are stated in Rand, unless otherwise indicated.

The following amended standards are expected to be applicable to the Scheme in the current and/or future periods:

The Scheme has not early adopted these standards and it is not expected that they will have any material impact to the Scheme's results but may result in additional disclosure in the financial statements.

International Financial Reporting Standards and amendments effective for the first time for 31 December 2017 year end

Number	Effective date	Executive summary	Impact
IAS 7, 'Cash flow statements' Statement of cash flows on disclosure initiative	1 January 2017	In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.	No material impact as the Scheme has no debt

International Financial Reporting Standards, interpretations and amendments issued but not effective for 31 December 2017 year end

Number	Effective date	Executive summary	Impact
Amendment to IFRS 4, 'Insurance contracts' Regarding the implementation of IFRS 9, 'Financial instruments'	1 January 2018	These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will: Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; Give companies whose activities are predominantly connected with insurance an optional exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.	The amendment is to be applied when applicable

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

1. ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (continued)

Number	Effective date	Executive summary	Impact
IFRS 9, 'Financial instruments (2009 & 2010)' · Financial liabilities · Derecognition of financial instruments · Financial assets · General hedge accounts	1 January 2018	This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.	The amendment is to be applied when applicable
Amendment to IFRS 9 'Financial instruments', · on general hedge accounting	1 January 2018	The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39. Early adoption of the above requirements has specific transitional rules that need to be followed. Entities can elect to apply IFRS 9 for any of the following: · The own credit risk requirements for financial liabilities. · Classification and measurement (C&M) requirements for financial assets. · C&M requirements for financial assets and financial liabilities. · The full current version of IFRS 9 (that is, C&M requirements for financial assets and financial liabilities and hedge accounting). The transitional provisions described above are likely to change once the IASB completes all phases of IFRS 9.	The amendment is to be applied when applicable
Amendment to IFRS 9 'Financial instruments', on · prepayment features with negative compensation and · modification of financial liabilities.	1 January 2018	The narrow-scope amendment covers two issues: · The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities. · How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.	The amendment does not have an impact on the Scheme, as the Scheme does not have prepayments with negative compensation and renegotiated liabilities
IFRS 15, Revenue from contracts with customers	1 January 2018	The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer.	The amendment is to be applied when applicable
Amendment to IFRS 15, Revenue from contracts with customers	1 January 2018	The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of these areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.	The amendment is to be applied when applicable
IFRS 16, 'Leases'	1 January 2019	This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.	The amendment is to be applied when applicable
IFRS 17, 'Insurance contracts	1 January 2021	The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.	The amendment is to be applied when applicable
IAS 40, 'Investment property"	1 January 2018	These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.	The amendment does not have an impact on the Scheme as the Scheme intends to dispose of the property in 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

1. ACCOUNTING POLICIES (CONTINUED)

1.2 PROPERTY AND EQUIPMENT

Property and equipment are reflected at cost less accumulated depreciation and accumulated impairments. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Scheme and the cost of the item can be measured reliably. Depreciation is charged on the straight-line basis over the estimated useful lives of the assets after taking into account the assets' residual values. The estimated maximum useful lives are:

Furniture	10 years
Leasehold Improvements	Between 5 and 7 years
Computer equipment	Between 3 and 6 years
Office equipment	Between 3 and 5 years
Medical equipment	10 years
Motor vehicles	5 years
Security equipment	5 years
Telephone system	3 years

The useful lives and residual values are assessed annually and adjusted appropriately. Maintenance and repairs, which neither materially add to the value of assets nor appreciably prolong their useful lives, are recognised in the statement of comprehensive income.

Surpluses and deficits on the disposal of property and equipment are recognised in the statement of comprehensive income.

Carrying amounts of all items of property and equipment are reduced to their recoverable amount, where this is lower than the carrying amount. Where components of an item of property and equipment have different useful lives, they are accounted for as separate items.

1.3 INVESTMENT PROPERTY

Property held for long-term rental yields that is not occupied by the Scheme is classified as investment property. Investment property is held to appreciate capital value or to earn rental income.

The Investment property comprises freehold land and is accounted for by means of the fair value model and is carried at market value. This is determined annually at the statement of financial position date by external independent professional valuers. Fair value adjustments are included in the net surplus or deficit for the period.

Investment properties carried at fair value are not subject to depreciation.

1.4 INTANGIBLE ASSETS

Computer software internally developed

Costs associated with researching or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Scheme are recognised as intangible assets when the following criteria are met as per IAS38:

- It is technically feasible to complete the software product so that it will be available for use.
- Management intends to complete the software product and use or sell it.
- There is an ability to use or sell the software product.
- It can be demonstrated how the software product will generate probable future economic benefits.
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available.
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as expenses as and when incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period.

Intangible assets that have an indefinite useful life or that are not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Intangible assets are reflected at cost less accumulated amortisation and accumulated impairments. Amortisation begins once the assets are ready for use or to sell on the straight-line basis over the estimated useful lives of the assets after taking into account the assets' residual values.

1.5 CLASSIFICATION, RECOGNITION, PRESENTATION AND DERECOGNITION OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised on the Scheme's statement of financial position when it becomes a party to the contractual provisions of the instrument. The Scheme classifies its financial instruments into the following categories: available-for-sale financial assets, loans and receivables and financial liabilities measured at amortised cost. The Scheme has grouped its financial instruments into the following classes:

- Available-for-sale financial assets;
- Loans and receivables;
- Trade and other receivables;
- Cash and cash equivalents;
- Trade and other payables; and
- Members' personal medical savings accounts.

The classification depends on the purpose for which the financial assets 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 assume the liability.

Offsetting financial instruments

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

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 assets 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 rewards 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 recognise separately as assets or liabilities any rights and obligations created or retained in the transfer; or

(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 or expire.

1.6 FINANCIAL ASSETS: INITIAL AND SUBSEQUENT MEASUREMENT

Loans and receivables

Loans and receivables are initially measured at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Scheme intends to sell in the short term or that it has designated as at fair value through profit and loss or available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

Available-for-sale

Unrealised gains and losses arising from changes in the fair value of the available-for-sale assets are included in the available-for-sale fair value reserve and taken to other comprehensive income. When assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in other comprehensive income as net realised gains/losses on financial assets.

Available-for-sale financial assets are measured at fair value and recognised through the available-for-sale fair value reserve in equity. Available-for-sale financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Scheme has also transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are non-derivative financial assets. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the financial position date.

For financial assets carried at fair value the allocation of fair value measurements into the fair value hierarchy is reflective of the significant inputs used in making the measurements. The fair value hierarchy is based on the following levels:

Level 1 - Quoted prices (unadjusted) in an active market for identical assets and liabilities.

Level 2 - Where inputs other than quoted price included within Level 1 that are observable for assets, either directly (i.e. as prices) or indirectly (i.e. derived from prices) are used.

Level 3 - Where the fair values are determined using a valuation technique based on assumptions that are not supported by observable market data. Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

1. ACCOUNTING POLICIES (CONTINUED)

1.6 FINANCIAL ASSETS: INITIAL AND SUBSEQUENT MEASUREMENT (continued)

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Scheme has determined that all of its investments in other funds ('Investee Funds') are investments in unconsolidated structured entities. The Scheme invests in Investee Funds whose objectives range from achieving medium- to long-term capital growth and whose investment strategy does not include the use of leverage. The Investee Funds are managed by unrelated asset managers and apply various investment strategies to accomplish their respective investment objectives. The Investee Funds finance their operations by issuing redeemable shares which are puttable at the holder's option and entitle the holder to a proportional stake in the respective fund's net assets.

The Scheme has units in each of its Investee Funds. The change in fair value of each Investee Fund is included in the statement of comprehensive income in net gains on available-for-sale financial assets.

1.7 TRADE AND OTHER RECEIVABLES

Trade and other receivables are non-derivative financial assets that arise from transactions with members and providers and have fixed or determinable amounts that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. Trade receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for 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 as reflected in Note 7.

1.8 CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less cost to sell.

1.9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition.

1.10 IMPAIRMENT OF FINANCIAL ASSETS

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of fair value less the cost to sell, and the value in use.

Financial assets carried at amortised cost

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

The Scheme first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Scheme determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, 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 (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Scheme may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

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 (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

Financial assets carried at fair value

The Scheme assesses at each statement of financial position date whether there is objective evidence that an available-for-sale financial asset is impaired. For debt securities, the Scheme uses the criteria referred to above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evident that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not subsequently reversed. The impairment loss is reversed through the statement of comprehensive income, if in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Impairment losses

The carrying amounts of the Scheme's assets, other than investment property, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.11 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life – intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

1.12 LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Scheme leases certain office equipment. Leases of office equipment where the Scheme substantially has all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

1. ACCOUNTING POLICIES (CONTINUED)

1.12 LEASES (continued)

charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

1.13 FINANCIAL LIABILITIES - INITIAL AND SUBSEQUENT MEASUREMENT

Financial liabilities are initially recognised at fair value net of transaction costs incurred. After initial recognition, financial liabilities are measured at fair value, with gains and losses through income. The fair value is determined as the present value of cash flows required to settle the liabilities. However, due to their short-term maturities, their fair value approximates cost. In addition, the Scheme is not permitted to borrow in terms of Section 35 of the Medical Schemes Act 131 of 1998, as amended. Therefore the Scheme has no long-term financial liabilities. As a result, no fair value adjustments arise.

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

The personal medical savings account, which is managed by the Scheme on behalf of its members, represents savings plan 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 in accordance with IFRS 4.

Members' personal medical savings accounts represent a financial liability of funds due to members by the Scheme. The savings account facility assists members in managing cash flows for costs to be borne by them during the year and meeting provider service expenses not covered by the Scheme's approved benefits. Advances on personal medical savings contributions are funded from the Scheme's funds and the risk of impairment is carried by the Scheme.

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

The personal medical savings accounts are invested on behalf of members in a current bank account and money market funds with banks. The cash and cash equivalents are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. The money market funds included in the available-for-sale investments are measured at fair value.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.14 LIABILITIES AND PROVISIONS

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

Outstanding claims provision

Claims outstanding comprise provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred but not yet reported at the statement of financial position date and related internal and external claims handling expenses. Claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claim 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.

Estimated co-payments and payments from personal medical savings accounts are deducted in calculating the outstanding claims provision. The Scheme does not discount its provision for outstanding claims on the basis that claims must be submitted within four months of the medical event, and the effect of the time value of money is not considered material.

1.15 MEMBER INSURANCE CONTRACTS

Contracts under which the Scheme accepts significant insurance risk from another party (the member) by agreeing to compensate the member or other beneficiary if a specified uncertain future event (the insured event) adversely affects the member or other beneficiary are classified as insurance contracts. The contracts issued compensate the Scheme's members for healthcare expenses incurred and are detailed in Note 17 and 18.

1.16 CONTRIBUTION INCOME

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

1.17 RELEVANT HEALTHCARE EXPENDITURE

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

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 comprise:

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

Net of:

- Claims from members' personal medical savings accounts;
- Recoveries from members for co-payments;
- Recoveries from risk transfer agreements;
- Recoveries from third parties;
- Discount received from service providers; and
- Claims paid to accredited managed healthcare services

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.

Risk transfer arrangements

Contracts entered into by the Scheme with third party service providers under which the Scheme is compensated for losses/claims (through the provision of services to members) on one or more contracts issued by the Scheme and that meet the classification requirements of insurance contracts are classified as risk transfer arrangements. Only contracts that give rise to a significant transfer of insurance risk are accounted for as risk transfer arrangements. Risk transfer fees are recognised as an expense over the indemnity period on a straight-line basis. Where applicable, a portion of risk transfer fees is treated as pre-payments.

Risk transfer claims and benefits reimbursed are presented in the statement of comprehensive income and statement of financial position on a gross basis.

Assets relating to risk transfer arrangements include balances due under risk transfer arrangements for outstanding risk claims provisions and claims reported not yet paid. Amounts recoverable under risk transfer arrangements are estimated in a manner consistent with the risk claims provisions, claims reported not yet paid and settled claims associated with the risk transfer arrangement taking into account the terms of the contract. The amounts recoverable under such contracts are recognised in the same year as the related claim.

Amounts recoverable under risk transfer arrangements are assessed for impairment at each statement of financial position date. Such 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.

1.18 LIABILITY ADEQUACY TEST

At the statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the member insurance contract liabilities.

The liability for insurance contracts is tested for adequacy by discounting current best estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of any related assets. Where a shortfall is identified, an additional provision is made and charged to the statement of comprehensive income.

1.19 BROKER SERVICE FEES AND OTHER DISTRIBUTION FEES

Broker service fees and other distribution fees are expensed as incurred.

1.20 ADMINISTRATION AND OTHER OPERATIVE EXPENSES

Expenses for administration and other operating expenses are expensed as incurred.

1.21 INVESTMENT INCOME

Investment income comprises: dividends; interest on cash and cash equivalents; fixed interest securities; realised and unrealised gains and losses.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

1. ACCOUNTING POLICIES (CONTINUED)

1.21 INVESTMENT INCOME (continued)

Dividend income from investments is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

1.22 OWN FACILITIES - MEDICAL CENTRES

The revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business to third parties, net of discounts. The surplus or deficit on own facilities represents this income less the cost incurred in operating these facilities for third parties. Benefits relating to services rendered by the own facility for the Scheme's members are reflected as part of claims incurred.

1.23 REIMBURSEMENTS FROM THE ROAD ACCIDENT FUND (RAF)

The Scheme grants assistance to its members in defraying expenditure incurred in connection with rendering of any relevant health service. Such expenditure may be in connection with a claim that is also made to the RAF, administered in terms of the Road Accident Fund Act 56 of 1996 (the RAF). If the member is reimbursed by the RAF, the member is obliged contractually to cede that payment to the Scheme to the extent that he or she has already been compensated.

A reimbursement from the RAF is a possible asset that arises from a claim submitted to the RAF and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Scheme. The contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the changes occurs. Amounts received from members in respect of reimbursements from the RAF are recognised as a reduction of net claims incurred. The cumulative value of claims submitted to RAF was R53.4 million at financial year end.

1.24 UNALLOCATED FUNDS

Unallocated funds that have legally prescribed, i.e. funds older than three years, are written back and are included under other income in the statement of comprehensive income.

1.25 EMPLOYEE BENEFITS

Pension obligations

All the employees of the Scheme contribute towards a defined contribution fund. A defined contribution plan is a pension plan under which the Scheme pays fixed contributions into a separate entity. The Scheme has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions to the defined contribution fund are recognised in the statement of comprehensive income for the year in which they are incurred.

Other post-employment obligations

The Scheme provides for medical scheme benefits upon retirement of employees who qualify. The provision comprises annual funding upon actuarial advice to provide for the future liability of medical benefits after retirement.

Leave pay accrual

The Scheme recognises in full employees' rights to annual leave entitlement in respect of past service.

Bonuses

Management and staff bonuses are recognised as an expense in staff costs as incurred.

1.26 INCOME TAX

In terms of Section 10(1)(d) of the Income Tax Act 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.

1.27 ALLOCATION OF INCOME AND EXPENDITURE TO BENEFIT OPTIONS

The following items are directly allocated to benefit options:

- Contribution income;
- Claims incurred;
- Risk transfer arrangement fees;
- Broker service fees;
- Interest paid on personal medical savings account balances.

The following items are apportioned based on the average number of members per option:

- Managed care management services;
- Broker other distribution fees;
- Administration and other operative expenses.

The following items are apportioned based on a percentage of gross contribution income per option:

- Other income;
- Expenses for asset management services rendered;
- Finance costs excluding interest paid on personal medical savings account balances;
- Other expenditure.

2. PROPERTY AND EQUIPMENT

	Furniture	Leasehold improve-ments	Computer office and medical equipment	Motor vehicles	Finance lease	Security and telephone system	Total
	R	R	R	R	R	R	R
Year ended 31 December 2017							
Cost							
At the beginning of the year	9 926 118	16 602 014	17 773 467	591 823	5 114 346	1 490 548	**51 498 314**
Additions	252 699	349 363	22 554 232	-	-	2 184 991	**25 341 285**
Disposals	(46 368)	-	(10 523 548)	-	-	(500 768)	**(11 070 684)**
Derecognition	-	-	-	-	(5 114 346)	-	**(5 114 346)**
At the end of the year	**10 132 449**	**16 951 376**	**29 804 151**	**591 823**	**-**	**3 174 771**	**60 654 570**
Accumulated depreciation							
At the beginning of the year	3 660 922	9 756 587	11 769 484	375 554	5 114 346	996 172	**31 673 065**
Disposals	(57 734)	-	(9 594 131)	-	-	(500 718)	**(10 152 583)**
Depreciation charges	946 312	2 116 749	9 680 206	92 755	-	427 659	**13 263 679**
Derecognition	-	-	-	-	(5 114 346)	-	**(5 114 346)**
At the end of the year	**4 549 500**	**11 873 335**	**11 855 559**	**468 309**	**-**	**923 113**	**29 669 816**
Carrying amount at the end of the year	**5 582 949**	**5 078 041**	**17 948 592**	**123 514**	**-**	**2 251 658**	**30 984 754**

	Furniture	Leasehold improve-ments	Computer office and medical equipment	Motor vehicles	Finance lease	Security and telephone system	Total
	R	R	R	R	R	R	R
Year ended 31 December 2016							
Cost							
At the beginning of the year	9 031 726	15 054 674	14 874 618	832 285	5 114 346	1 229 091	**46 136 741**
Additions	964 336	1 547 339	4 247 274	-	-	261 457	**7 020 406**
Disposals	(69 945)	-	(1 348 426)	(240 462)	-	-	**(1 658 833)**
At the end of the year	**9 926 118**	**16 602 014**	**17 773 467**	**591 823**	**5 114 346**	**1 490 548**	**51 498 314**
Accumulated depreciation							
At the beginning of the year	2 817 838	7 616 238	9 558 522	446 856	5 114 346	753 042	**26 306 842**
Disposals	(16 500)	-	(1 292 609)	(196 378)	-	-	**(1 505 486)**
Depreciation charges	859 584	2 140 349	3 503 571	125 076	-	243 130	**6 871 710**
At the end of the year	**3 660 922**	**9 756 587**	**11 769 484**	**375 554**	**5 114 346**	**996 172**	**31 673 065**
Carrying amount at the end of the year	**6 265 196**	**6 845 427**	**6 003 982**	**216 269**	**-**	**494 375**	**19 825 250**

Depreciation expenditure to the value of R313 426 (2016: R299 921) has been allocated to own facility expenses due to it being expenditure at the Medical Facilities used for services rendered to members and third parties (Note 27).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

3. INVESTMENT PROPERTY

	2017	2016
	R	R
Carrying value at the beginning of the year	1 600 000	1 500 000
Revaluation adjustment	-	100 000
Carrying value at the end of the year	**1 600 000**	**1 600 000**

Investment property comprises the following: Stand 1190, Oubaai Golf Estate, Herolds Bay.

The investment property was carried at cost in the year of purchase and is valued annually by an independent professional qualified valuer, not connected with the Scheme. The valuer is a member of the Institute of Valuers, has appropriate qualifications and recent experience in the valuation of properties in the relevant location. The valuation method used was on the basis of recent and comparable sales with properties of a similar utility in an open market.

Direct operating expenses arising from this investment property amounted to R99 749 (2016: R94 322).

4. INTANGIBLE ASSETS

	2017	2016
	R	R
Year ended 31 December 2016		
Cost		
At the beginning of the year	2 279 886	-
Additions	4 758 075	2 279 886
At the end of the year	7 037 961	2 279 886
Accumulated amortisation		
At the beginning of the year	-	-
Amortisation for the year	(469 197)	-
At the end of the year	(469 197)	-
Carrying value at the end of the year	**6 568 764**	**2 279 886**

The intangible asset consists of development costs incurred in 2016, for a new in-house tailor-made member administration IT system that is being developed by the Scheme. The asset was available and brought into use from 01 May 2017.

5. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	R	R
Scheme		
Fair value at the beginning of the year	1 353 671 699	1 266 587 967
Additions	3 444 000 000	2 564 712 642
Disposals	(3 293 000 000)	(2 579 000 000)
Interest received	78 653 580	62 193 570
Accrued income	-	2 456 268
Dividends received	17 444 020	17 699 768
Bank charges	(235 509)	(230 560)
Management fees	(6 678 621)	(6 184 931)
Realised gain on disposal of available-for-sale investments	11 669 040	2 735 157
Unrealised gain/(loss) on revaluation of available-for-sale investments	45 422 414	22 701 819
Fair value at the end of the year	**1 650 946 623**	**1 353 671 699**
Non-current	1 297 263 431	1 068 456 864
Current	353 683 193	285 214 835
	1 650 946 623	**1 353 671 699**
Personal medical savings account trust monies invested		
Fair value at the beginning of the year	443 013 903	350 281 707
Additions	-	60 000 000
Interest received	38 275 442	33 188 067
Bank charges	(8 783)	(12 788)
Management fees	(491 433)	(443 083)
Fair value at the end of the year	**480 789 128**	**443 013 903**
Current	**480 789 128**	**443 013 903**

The fair value of all the investments above are based on the open market value. The total realised and unrealised fair value gains recognised in equity relating to the Schemes' available-for-sale investments amounted to R57 091 454 (2016: gain of R25 436 976) during the current year.

The carrying amount of the personal medical savings account trust investments approximates the fair values due to the short-term nature of the investments.

A register of investments is available for inspection at the registered office of the Scheme. Refer to Note 39 for Financial Risk Management disclosures.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

5. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

	2017	2016
	R	R
The Scheme investments included above represent investments in:		
Segregated portfolio	663 587 430	717 923 106
- Listed Equity	275 626 109	220 741 330
- Money Market Instruments	154 882 842	140 173 743
- Listed Bonds	150 933 557	219 505 734
- SA Listed Properties	76 331 136	69 695 031
- Exchange Traded Funds	5 813 787	5 033 682
- International Fixed Interest Instruments	-	62 773 588
Linked Insurance Fund Policies	453 651 722	350 533 758
Collective Investment Schemes	533 707 471	285 214 835
	1 650 946 623	**1 353 671 699**
The personal medical savings investments included above represent investments in:		
Segregated portfolio	232 535 098	214 760 299
- Money Market Instruments	229 199 800	214 760 299
- Listed Bonds	3 335 298	-
Linked Insurance Fund Policies	248 254 030	228 253 603
	480 789 128	**443 013 902**

The personal medical savings accounts were invested on behalf of members in Money Market Fund and Linked Insurance Fund policies. The effective interest rate on the investments was 8.6% (2016: 8.3%) and the investments had an average maturity of 347 (2016: 334) days.

6. LOANS AND RECEIVABLES

	2017	2016
	R	R
At the beginning of the year	-	21 558
Redeemed	-	-
Monthly payments received	-	(21 828)
Finance charges	-	270
At the end of the year	**-**	**-**

The Scheme granted loan amounts to employees and management over a maximum period of 60 months at an average interest rate of 7.5% in 2016, as published by SARS.

7. TRADE AND OTHER RECEIVABLES

	2017	2016
	R	R
Insurance receivables		
Contributions outstanding	47 457 116	59 501 016
Recoveries from providers	1 082 395	354 418
Recoveries from members for co-payments	4 445 481	2 837 256
Personal medical savings account advances (Note 13)	6 261 204	2 936 324
	59 246 196	65 629 013
Less: Provision for impairment	(7 693 965)	(1 241 881)
Total receivables arising from insurance contracts	51 552 230	64 387 132
Other loans and receivables		
Prepaid expenses and deposits	12 900 964	16 489 978
Accrued interest	2 458 689	1 356 266
Sundry accounts receivable	2 100 902	2 033 967
	17 460 555	19 880 211
Recovery under risk transfer arrangements outstanding claims provisions	1 249 426	3 154 663
Total trade and other receivables	**70 262 212**	**87 422 006**

The carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets. Estimated cash flow receipts have not been discounted as the effect would be immaterial. Refer to Note 39 for impairment disclosures.

8. CONTINGENT ASSET

Road Accident Fund

Claims for third party debtors (the Road Accident Fund) for benefits paid on behalf of the Scheme's members are disclosed as a contingent asset as the inflow of economic benefits is probable, but not virtually certain. The cumulative value of claims being investigated is R54.8 M (2016: R53.4 M)

Minemed Medical Scheme

The Minemed Medical Scheme which amalgamated with Bestmed Medical Scheme with effect from 1 September 2013 paid an amount of R7 352 616 in respect of a single admission for a beneficiary. Minemed Medical Scheme has obtained an independent expert opinion on the cause of the admission and the treatment provided and has been advised that there was probable negligence on the part of the service providers.

Bestmed on behalf of Minemed Medical Scheme investigated the possibility of instituting legal action to recover the amounts paid as a consequence of the probable negligence. Although litigation proceedings previously commenced, the passing of the member brought these to a halt as he was key in Bestmed's ability to prove its case. Owing to this unfortunate incident, Bestmed has had to re-assess its prospects of success. As a consequence of this assessment and review of the legal advise received, the Scheme's Board of Trustees has decided to withdraw from this matter.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

9. CURRENT ASSETS HELD FOR SALE

A decision was taken by the Board of Trustees of the Scheme to dispose all the office buildings. The property was previously rented out to the previous Administrator of the Scheme, namely Sanlam Healthcare Management (Pty) Ltd, and the rental agreement was terminated with effect from 31 December 2010. An offer to purchase for the value of R3 200 000 was received and accepted by the Scheme during 2015 and the sale finalised in 2016.

	2017	2016
	R	R
The assets to be disposed are as follows:		
Opening Balance	-	3 200 000
Land	-	195 000
Building	-	3 005 000
Impairment Recognised against Revaluation Reserve	-	-
Disposals	-	(3 200 000)
Net assets classified as held for sale	**-**	**-**

The Revaluation Reserve of R1 497 295 on the Statement of changes in members' funds and reserves in 2016 related to this asset held for sale.

10. CASH AND CASH EQUIVALENTS

	2017	2016
	R	R
Scheme		
Call accounts	125 377 477	113 123 637
Current accounts	35 068 965	17 457 922
	160 446 441	**130 581 559**

The weighted average effective interest rate on short-term cash deposits was 7.07% (2016: 6.85%) and had an average maturity of 29.42 days (2016: 29.50 days). The carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets.

Refer to Note 22 for the total interest earned on the bank accounts and fixed deposits which are included in investment income in the statement of comprehensive income.

	2017	2016
	R	R
Investment of personal medical savings account trust monies managed by the Scheme on behalf of its members		
Current accounts	160 147 569	123 308 771
	160 147 569	**123 308 771**

The weighted average effective interest rate on the short-term cash was 2.89% (2016: 2.91%) and the carrying amounts of cash and cash equivalents approximate their fair values due to the short-term nature of these assets.

11. RETIREMENT BENEFIT OBLIGATIONS

Pension Fund

All the employees of the Scheme contribute towards a defined contribution plan. A defined contribution plan is a pension plan under which the Scheme and employees pay fixed percentage contributions into a separate entity. The Scheme has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Post-retirement medical obligation

The Scheme did make provision for contributions towards medical benefits after normal retirement. Provision is made for the estimated benefits of the existing 20 (2016: 21) pensioners. The total present value of the liability based on a projected-unit-credit basis as at 31 December 2017 is R12 215 765 (2016: R13 333 401). The liability of all active employees was settled.

		2017	2016
The independent actuarial assumptions and valuation at year end were:			
Number of pensioner members		20	21
Future long-term medical inflation		9.1% p.a.	9.7% p.a.
Expected yield on assets		9.2%	9.4%
Mortality assumptions			
Post-retirement Male	Rated down by 1 year	PA 90	PA 90
Post-retirement Female	Rated down by 2 years	PA 90	PA 90
Life expectancy - present age 62			
Male		15.77	16.46
Female		20.45	21.52

Other assumptions

No significant changes would occur in the structure of the medical arrangements. Current contribution scales for members have been used as a basis for the calculations and was assumed that the scales will remain unchanged, with the exception of annual adjustments for medical inflation.

Contribution tables

The monthly medical scheme contributions for 2018 used in the valuation of the contributions liability are as follows:

	Income Band	Principal Member	Adult Dependant	Child Dependant
		R	R	R
Beat1	All	1 363	1 058	573
Beat2	All	1 685	1 310	710
Beat3	All	2 558	1 817	987
Beat4	All	3 922	3 239	970
Pace1	All	3 312	2 325	836
Pace2	All	4 677	4 586	1 031
Pace3	All	5 370	4 322	923
Pace4	All	6 608	6 608	1 548
Pulse1	R0 - R5 500 p.m.	1 372	1 303	824
Pulse1	R5 501 - R8 500 p.m.	1 645	1 565	987
Pulse1	> R8 501 p.m.	1 976	1 777	987
Pulse2	All	4 732	4 732	1 124

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

11. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	2017	2016
	R	R
The value recognised in the statement of financial position are:		
Liability at 1 January	13 333 401	13 264 418
Settlements	(903 233)	(872 121)
Interest cost	1 210 888	1 295 664
Actuarial gain	(1 425 291)	(354 560)
Liability at year end in the statement of financial position	**12 215 765**	**13 333 401**

Settlements

Settlements are the amounts paid with respect to the monthly subsidies of pensioners' medical scheme contributions.

Interest cost

The interest cost is the assumed investment return on the unfunded liability. A rate of 9.4% per annum was used for the year ended 31 December 2017 (2016:10.1%).

Actuarial gain

The liabilities are based on projections of future experience. Any difference between the actual experience since the date of previous valuation and that assumed in the previous projections will emerge as actuarial gains or losses. In addition, any changes to the assumptions will manifest as an actuarial gain or loss.

An actuarial gain of R1 425 291 (2016: R354 560) is reported over the past year in the statement of comprehensive income. This gain is due to the following factors:

	2017	2016
	R	R
· Demographic experience (including option changes) and that assumed in the previous valuation gave rise to an actuarial gain.	827 691	402 488
· Changes made to assumptions the decrease in the discount rate from 9.4% to 9.2% and a decrease in the medical cost inflation assumption from 9.7% to 9.1%.	656 400	474 839
· Actual contribution increases on 1 January 2018 were 8.4% as opposed to the assumption of 7.9% used (2016: 12.1% vs 7.8%).	(58 800)	(522 767)
	1 425 291	**354 560**

History on year-end balances At 31 December	Balance on statement of financial position	Actuarial (loss)/gain in statement of comprehensive income
	R	R
2017	12 215 765	1 425 291
2016	13 333 401	354 560
2015	13 264 418	727 022
2014	13 733 176	771 438
2013	14 132 359	888 716
2012	14 724 759	(705 065)
2011	13 694 425	955
2010	13 453 040	(870 403)
2009	12 294 256	(1 589 370)
2008	14 617 517	(2 550 926)
2007	11 126 271	(641 801)

Sensitivity analysis

The following table illustrates the impact of a 1% and 0.5% increase and decrease in the assumed future rate of medical inflation:

2017	Base	Inflation plus 1%	Inflation plus 0.5%	Inflation minus 1%	Inflation minus 0.5%
	R	R	%	R	%
Liability at 1 January 2017	13 333 401	13 333 401	13 333 401	13 333 401	13 333 401
Settlements	(903 233)	(903 233)	(903 233)	(903 233)	(903 233)
Interest cost	1 210 888	1 210 888	1 210 888	1 210 888	1 210 888
Actuarial (gain)/loss	(1 425 291)	(282 406)	(873 256)	(2 424 822)	(1 941 553)
Liability as at 31 December 2017	**12 215 765**	**13 358 649**	**12 767 800**	**11 216 234**	**11 699 503**

2018	Base	Inflation plus 1%	Inflation plus 0.5%	Inflation minus 1%	Inflation minus 0.5%
	R	R	%	R	%
Liability at 1 January 2018	12 215 765	13 358 649	12 767 800	11 216 234	11 699 503
Settlements	(929 726)	(929 726)	(929 726)	(929 726)	(929 726)
Interest cost	1 081 083	1 186 228	1 131 870	989 126	1 033 587
Liability as at 31 December 2018	**12 367 122**	**13 615 151**	**12 969 944**	**11 275 634**	**11 803 364**

For the purposes of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment, the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

12. FINANCE LEASE LIABILITY

	2017	2016
	R	R
Interest-bearing leases		
Finance lease at the beginning of the year	-	25 198
Settlements	-	-
Monthly instalments	-	(25 684)
Finance charges	-	486
Finance leases at the end of the year	**-**	**-**

The finance lease liabilities were secured by computer and office equipment (Note 2). Bestmed Medical Scheme leased the equipment from Centrafin (Pty) Ltd and Dell Financial Services.

Centrafin (Pty) Ltd

These finance leases were repayable over an average period of three years and the average interest paid for 2016 was 16.1% per annum. The lease agreements provided for monthly payments in arrears with no residual values. The lease agreements did not provide for contingent rent payments, ownership remained with Centrafin (Pty) Ltd and the lease was not renewed at the expiry of the initial lease term.

Dell Financial Services

This finance lease was repayable over three years and interest paid for 2016 was 20.5% per annum. The lease agreement provided for 13 quarterly payments of R236 685 each and no residual value. The agreement did not provide for contingent rent payments, ownership remained with Dell Financial Services and the lease was not renewed at the expiry of the initial lease term.

13. PERSONAL MEDICAL SAVINGS ACCOUNT TRUST LIABILITY

	2017	2016
	R	R
Monies managed by the Scheme on behalf of its members		
Balance on personal medical savings account liability at the beginning of the year	583 457 231	538 756 605
Less		
Advances on personal medical savings accounts (Note 7)	(2 936 324)	(2 459 556)
Balance on personal medical savings account liability at the beginning of the year	580 520 908	536 297 049
Add		
Personal medical savings account contributions received or receivable (Note 16)	777 037 364	712 442 850
Personal medical savings account balances received from other schemes	581 827	742 723
Interest on personal medical savings account trust funds invested paid to members (Note 24)	42 131 450	35 977 627
Advances on personal medical savings accounts written off or in debt recovery process	5 599 226	6 942 665
Less		
Personal medical savings claims paid on behalf of members (Note 17)	(731 712 054)	(678 347 397)
Refunds on death or resignations	(18 928 296)	(33 077 666)
Bank charges and management fees (Note 26)	(501 160)	(456 944)
Add		
Advances on personal medical savings accounts (Note 7)	6 261 204	2 936 324
Balances due to members on personal medical savings accounts held in trust at end of year	**660 990 469**	**583 457 231**

In accordance with the Rules of the Scheme, the personal medical savings accounts are underwritten by the Scheme.

The personal medical savings account trust liability contains a demand feature in terms of Regulation 10 of the Medical Schemes Act that 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 then enrols in another benefit option or medical scheme without a personal medical savings account or does not enrol in another medical scheme.

The carrying amount of the personal medical savings account trust investments approximates their fair values due to the short-term nature of the investments. Interest earned on all personal medical savings account funds invested as cash and cash equivalents and available-for-sale investments are allocated to members' personal medical saving account balances, and are not recognised as income for the Scheme.

The Scheme does not charge interest on debit personal medical savings plan balances and advances on personal medical savings accounts are funded by the Scheme and are included and disclosed in trade and other receivables.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

14. OUTSTANDING CLAIMS PROVISION

	Covered by risk transfer arrangements	Not covered by risk transfer arrangements	Total
	R	R	R
2017			
Provision for outstanding claims incurred but not reported	**1 249 426**	**154 400 000**	**155 649 426**
Analysis of movements in outstanding claims			
Balance at the beginning of the year	3 154 663	106 000 000	109 154 663
Payments in respect of the prior year	(6 966 767)	(106 475 498)	(113 442 265)
(Under)/over provision in the prior year	(3 812 104)	(475 498)	(4 287 602)
Adjustment for the current year	5 061 530	154 875 498	159 937 028
Balance at end of the year	**1 249 426**	**154 400 000**	**155 649 426**
2016			
Provision for outstanding claims incurred but not reported	**3 154 663**	**106 000 000**	**109 154 663**
Analysis of movements in outstanding claims			
Balance at the beginning of the year	3 116 318	86 000 000	89 116 318
Payments in respect of the prior year	(6 728 280)	(88 026 635)	(94 754 915)
(Under)/over provision in the prior year	(3 611 962)	(2 026 635)	(5 638 597)
Adjustment for the current year	6 766 625	108 026 635	114 793 260
Balance at end of the year	**3 154 663**	**106 000 000**	**109 154 663**

Process used to determine the assumptions

Following the implementation of the new administration system on 1 May 2017, the manner in which the Scheme defined and captured service dates relating to hospital events has changed. The Scheme recognised this as a change in accounting estimate as this impacts the calculation of the IBNR provision resulting from these claim patterns.

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 as 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 insufficient information to make a reliable best estimate of claims development, best estimates are used.

Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances, information available from Managed Care: Management Services and historical evidence of the size of similar claims. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by category of claims (i.e. in-hospital, chronic and above threshold benefits) due to differences in the underlying insurance contract, claim complexity, the volume of claims, the individual severity of claims, determining the occurrence date of a claim and reporting lags.

The cost of outstanding claims at year end is estimated using the chain ladder model. This model extrapolates the development of paid and incurred claims, average cost per claims and ultimate claim numbers for each benefit year based upon observed development of earlier years and expected loss ratio. Run-off triangles are used in situations where it takes time after the treatment date for the full extent of the claims to become known. It is assumed that payments will emerge in a similar way in each service month. The proportional increase in the known cumulative payments from one development month to the next can then be used to calculate payments for future development months.

The actual method or blend of method used varies according to the particular benefit year being considered, categories of claims and observed historical claims development. To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

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

Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the expected claims ratios for the most recent benefit years for the in-hospital, chronic and day-to-day benefits. These are used for assessing the outstanding claims provisions for the 2017 and 2016 benefit years.

Sensitivity analysis

The following table illustrates the impact of a 1% increase and decrease in the outstanding claims provision:

2017	Base	Inflation plus 1%	Change	Inflation minus 1%	Change
	R	R	%	R	%
Liability as at 31 December 2017	155 649 426	157 205 920	1.00%	154 092 932	(1.00%)

Changes in assumptions and sensitivities to changes in key variables

The table below outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. It should be noted that this is a deterministic approach with no correlations between the key variables.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

14. OUTSTANDING CLAIMS PROVISION (CONTINUED)

Changes in assumptions and sensitivities to changes in key variables (continued)

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

Impact on surplus reported caused by reasonable possible changes in key variables

2017 Scenario	Claims for 2017 services paid from Jan 2018 to Mar 2018	2017 Claims estimated at that time to be paid after Mar 2018	Outstanding claims provision	% Change in outstanding claims provision
	R	R	R	%
Base scenario	139 691 448	14 707 588	154 399 036	
10% increase	139 691 448	16 178 348	155 869 796	0.95%
10% decrease	139 691 448	13 236 829	152 928 277	(0.95)

2016 Scenario	Claims for 2016 services paid from Jan 2017 to Mar 2017	2016 Claims estimated at that time to be paid after Mar 2017	Outstanding claims provision	% Change in outstanding claims provision
	R	R	R	%
Base scenario	97 539 060	8 502 563	106 041 623	
10% increase	97 539 060	9 352 820	106 891 880	0.80%
10% decrease	97 539 060	7 652 307	105 191 367	(0.80)

This analysis is prepared for a change in a specified variable with other assumptions remaining constant. The change in liability also represents the absolute change in surplus for the period. It should be noted that increases in liabilities will result in decreases in surplus and vice versa. These reasonable possible changes in key variables do not result in any direct changes directly in reserves.

15. TRADE AND OTHER PAYABLES

	2017	2016
	R	R
Insurance liabilities		
Contributions received in advance	11 822 527	34 623 574
Unclaimed payments	13 772 718	13 464 894
Reported claims not yet paid	43 541 132	36 437 651
	69 136 377	84 526 119
Financial liabilities		
Other payables and accrued expenses	39 452 510	24 300 835
Trade creditors payable	4 411 535	7 112 841
Total trade and other payables	43 864 046	31 413 675
Provisions		
Leave provision at the beginning of the year	6 700 513	5 455 750
Movement for the year	1 018 291	1 244 763
Leave provision at the end of the year	7 718 804	6 700 513
	120 719 227	**122 640 308**
Reported claims not yet paid		
Balance at beginning of year	36 437 651	36 948 902
Net movement for the year	7 103 481	(511 251)
Balance at end of year	**43 541 132**	**36 437 651**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

16. RISK CONTRIBUTION INCOME

	2017	2016
	R	R
Gross contributions	5 033 075 396	4 630 883 550
Less: Personal medical savings account contributions (Note 13)	(777 037 364)	(712 442 850)
	4 256 038 032	**3 918 440 700**

The personal medical savings account contributions are received by the Scheme in terms of Regulation 10(1) and the Scheme's Registered Rules and it is held in trust on behalf of the members of the Scheme.

17. NET CLAIMS INCURRED

	2017	2016
	R	R
Claims incurred excluding claims incurred in respect of risk transfer arrangements		
Current-year claims as per Registered Rules	4 114 795 983	3 818 109 504
Movement in outstanding claims provision	154 875 498	108 026 635
Under provision in prior year	475 498	2 026 635
Adjustment for current year	154 400 000	106 000 000
Claims paid from personal medical savings accounts	(731 712 054)	(678 347 397)
	3 537 959 426	3 247 788 741
Claims incurred in respect of risk transfer arrangements		
Current-year claims incurred in respect of risk transfer arrangements (Note 18)	99 591 934	134 857 146
Recovery under risk transfer arrangements	(5 061 530)	(6 766 625)
Movement in outstanding claims provision	5 061 530	6 766 625
Under provision in prior year	3 812 104	3 611 962
Adjustment for current year	1 249 426	3 154 663
	99 591 934	134 857 146
Hospital discount received	(8 781 751)	(9 351 788)
Third party claims recoveries	(7 283 907)	(7 936 003)
Accredited managed healthcare services	106 022 510	100 168 473
Hospital benefit management services	29 695 063	24 728 288
Pharmacy benefit management services	58 168 680	58 169 054
Managed care network management services & risk	10 155 387	8 429 476
Active disease risk management	8 003 379	8 841 655
Net claims incurred per the statement of comprehensive income	**3 727 508 212**	**3 465 526 570**

18. RISK TRANSFER ARRANGEMENTS

2017	CareCross Health	OneCare Health	ER24	Preferred Provider Negotiators	Total
	R	R	R	R	R
Capitation fees paid	-	-	26 447 755	57 742 835	84 190 590
Recoveries received	-	-	(32 170 196)	(67 421 738)	(99 591 934)
Net (income)/expense on risk transfer arrangement	**-**	**-**	**(5 722 441)**	**(9 678 903)**	**(15 401 344)**

2016	CareCross Health	OneCare Health	ER24	Preferred Provider Negotiators	Total
	R	R	R	R	R
Capitation fees paid	19 222 412	21 203 171	23 683 775	53 933 420	118 042 778
Recoveries received	(24 387 728)	(21 481 236)	(28 725 621)	(60 262 561)	(134 857 146)
Net (income)/expense on risk transfer arrangement	**(5 165 316)**	**(278 065)**	**(5 041 846)**	**(6 329 140)**	**(16 814 367)**

A risk transfer arrangement is defined by IFRS 4 as an insurance contract issued by one insurer (the reinsurer) to compensate another insurer (the cadent) for losses on one or more contracts issued by the cadent. The cost the Medical Scheme would have incurred to deliver the specified benefits had it not entered into the capitation agreement, primarily represents the Scheme's exposure to its members, as the capitation agreement cannot absolve the Medical Scheme from its responsibility towards its members. This "cost" is disclosed as claims incurred from insurance contracts (Note 17).

The Scheme would have incurred this "cost" (had it not entered into the capitation agreement) to deliver the specified benefits and as such it represents the Scheme's recovery in kind from the managed healthcare provider. This recovery in kind, of cost incurred, is disclosed as recoveries from risk transfer arrangements.

The Scheme entered into the above risk transfer arrangements (capitation contracts) whereby the parties agreed that the above service providers will render services to beneficiaries on certain options of the Scheme. A fixed fee was paid monthly to OneCare Health, CareCross Health, ER24 and the Preferred Provider Negotiators per beneficiary. The following services were rendered to beneficiaries:

- General Practitioner consultations;
- Acute Medicine;
- Chronic Medicine;
- Pathology as required;
- Radiology as required;
- Conservative Dentistry;
- Optical services.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

18. RISK TRANSFER ARRANGEMENTS (CONTINUED)

The methodologies used to determine the claims covered by these arrangements are set out below:

CareCross Health

CareCross Health provided out-of-hospital healthcare services to members on the Pulse1 option until 31 December 2016. CareCross used three year's historic claims patterns across all schemes to establish a seasonality trend per day per month. The Scheme's daily historic claim patterns per discipline type per life per month were then calculated and used to determine the cost per life per day of the week, and these figures were then compared to historic trends for reasonability to the outstanding claims provision.

Assumptions

- Calculations were based on National Health Reference Price List (NHRPL) plus inflation and were VAT inclusive.
- The Radiology, Pathology, Out of Area and GP costs were based on actual visits by members at NHRPL plus inflation.
- The GP medicine was the cost of medicine dispensed at NHRPL plus inflation.
- The medicines from pharmacy costs were based on actual dispensing to members at NHRPL plus inflation.
- Capitated GPs costs were based on the allocated patient visits at NHRPL plus inflation.

OneCare Health

OneCare Health provided out-of-hospital healthcare services to members on the Pulse2 option until 31 December 2016. OneCare used three year's historic claims patterns across all schemes to establish a seasonality trend per day per month. The Scheme's daily historic claim patterns per discipline type per life per month were then calculated and used to determine the cost per life per day of the week, and these figures were then compared to historic trends for reasonability to the outstanding claims provision.

Assumptions

- Calculations were based on NHRPL plus inflation and were VAT inclusive.
- GPs were reflected at the national average of 3.6 visits at NHRPL plus inflation.
- The other disciplines' costs were based on actual visits by members at NHRPL plus inflation.
- The medicines from pharmacy costs were based on actual dispensing to members at NHRPL plus inflation.

ER24

The cost that the Scheme would have incurred for ambulance services are disclosed by ER24. Detailed records are kept of all services to every member of a medical scheme with a contracted capitation agreement. The fixed cost per member per month paid to ER24 includes administration costs, which consist of marketing cost, the pre-authorisation system and administration fees.

The Scheme took out insurance for International Travel at a rate of R2.40 (2016: R2.40) per member with ER24. The total travel insurance paid to ER24 for 2017 was R2.7 M (2016: R3.1 M).

Preferred Provider Negotiators

Preferred Provider Negotiators are to provide Optometric Services by the participating providers to Bestmed members, which include consultations, frames, lenses and contact lenses. Claims incurred and recoveries received were calculated based on utilisation figures obtained from Preferred Provider Negotiators.

19. BROKER SERVICE FEES AND OTHER DISTRIBUTION FEES

	2017	2016
	R	R
Brokers' fees	70 458 474	65 780 968
Other Distribution fees	-	9 134 460
	70 458 474	**74 915 428**

20. ADMINISTRATION EXPENSES

		2017	2016
		R	R
Managed care management services		6 006 181	5 352 503
Wellness and preventative care		4 158 980	3 123 071
Maternity programme		1 847 202	2 229 432
Actuarial fees		2 011 038	1 863 226
Audit fees		1 861 777	753 281
External audit services for previous year's audit		1 552 686	582 427
External audit services for current year audit		309 090	-
Other		-	170 854
Bank charges		4 135 547	3 419 397
Consultation fees		6 316 618	6 842 144
Debt collection fees		1 166 504	1 387 461
Amortization		469 197	-
Depreciation	2	12 950 252	6 571 788
Employee benefit expenses	29	129 670 110	116 513 676
Employee recruitment training and development		5 035 104	5 750 898
Insurance premiums		596 483	608 403
Information Technology		49 406 038	55 379 253
IT maintenance		3 652 093	3 888 039
License fees		6 675 709	6 529 059
Legal fees		4 712 479	2 122 673
Marketing and advertising expenses		29 632 687	34 379 724
Office rent	30	27 032 072	25 948 235
Other expenses		3 799 261	3 777 218
Principal Officers' fees	29	11 906 741	4 657 446
Printing and stationery expenses		5 613 466	5 943 706
Registrar's levies and other fees		3 234 030	3 145 052
Telephone and postage fees		6 649 209	5 484 480
Total trustee remuneration and travel and accommodation expenses	32	2 111 319	1 707 510
Travel accommodation and conferences		4 337 837	4 889 891
		328 981 752	**306 915 065**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

21. NET IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES

	2017	2016
	R	R
Trade and other receivables		
Members' and service providers' portions that are not recoverable		
Movement in provision	(7 439 253)	(3 390 968)
Bad debts recovered	1 032 161	1 035 534
Bad debts written off	(2 626 595)	(543 914)
	(9 033 687)	**(2 899 348)**

22. INVESTMENT INCOME

		2017	2016
		R	R
Income from Scheme investments			
Available-for-sale financial assets - interest income	5	79 644 663	64 649 838
Available-for-sale financial assets - dividend income		17 444 020	17 699 768
Cash and cash equivalents - interest income		1 927 242	1 685 718
Net realised gains on available-for-sale financial assets	5	11 669 040	2 735 157
		110 684 964	**86 770 481**
Personal medical savings account trust monies invested			
Available-for-sale financial assets		37 967 583	31 794 866
Cash and cash equivalents - interest income		4 163 868	3 725 817
	13	**42 131 450**	**35 520 683**

23. SUNDRY INCOME

	2017	2016
	R	R
Unclaimed cheques and credits written off	1 600 305	1 457 209
Net profit on disposal of fixed assets	85 679	44 324
Net proceeds on disposal of asset held for sale	-	1 496 794
Revaluation of investment property	-	100 000
	1 685 984	**3 098 327**

24. INTEREST PAID ON PERSONAL MEDICAL SAVINGS TRUST ACCOUNTS

		2017	2016
		R	R
Net Interest paid on members' personal medical saving account balances	22;26	41 630 290	35 520 683
		41 630 290	**35 520 683**

25. INTEREST PAID

		2017	2016
		R	R
Finance costs - lease liability	12	-	486
Interest paid - Other		-	87 080
		-	**87 566**

26. ASSET MANAGEMENT FEES

		2017	2016
		R	R
Scheme			
Expenses for asset management services rendered	5	6 678 621	6 184 931
		6 678 621	**6 184 931**
Personal medical savings account trust monies invested			
Expenses for asset management services rendered	13	501 160	456 944
		501 160	**456 944**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

27. OWN FACILITY NET EXPENDITURE

	2017	2016
	R	R
Income		
Income from medical services rendered in own facilities	(3 267 953)	(3 288 637)
	(3 267 953)	(3 288 637)
Expenditure in operating own facility		
Total healthcare provider costs	7 436 638	7 219 034
Changes in inventories	639 428	684 905
Administration expenses	346 355	538 879
Information Technology	304 584	322 237
Facilities expenditure	2 038 629	1 768 538
	10 765 634	10 533 592
Deficit on Own Facility	**7 497 681**	**7 244 956**

The Medical Centres facilities provide healthcare services to members and third parties and generate own revenue for the services rendered. Cost incurred by the Medical Centres represent functional medical equipment medical supplies facility expenditure and nursing and administration services.

28. OTHER LOSSES

Net loss on disposal of fixed assets	2	21 180	68 215
		21 180	**68 215**

29. EMPLOYEE BENEFIT EXPENSES

		2017	2016
		R	R
Salaries and Bonuses		116 468 021	97 484 002
Retirement benefits		9 386 289	9 017 660
Medical and other benefits		12 254 113	9 824 426
Increase in leave pay accrual		3 682 831	3 903 930
Retirement benefit obligations		(214 403)	941 104
		141 576 851	121 171 122
Less: Principal Officer's compensation	33	(7 699 079)	(4 657 446)
- Salary		(857 740)	(3 248 475)
- Severance Payment		(6 500 000)	-
- Bonuses paid and provided for		-	(759 100)
- Retirement benefits		(59 328)	(278 894)
- Medical and other benefits		(282 010)	(370 977)
Less: Acting Principal Officer's compensation	33	(4 207 662)	-
- Salary		(2 093 610)	-
- Acting Allowance		(256 673)	-
- Bonuses paid and provided for		(1 389 845)	-
- Retirement benefits		(350 978)	-
- Medical and other benefits		(116 556)	-
		129 670 110	**116 513 676**

30. COMMITMENTS

Operating lease commitments

The Scheme leases various properties and equipment under non-cancellable operating lease agreements with escalation clauses and renewal rights. The payments will escalate between 5% and 10% per annum and the periods vary from 36 to 97 months. The lease expenditure charged to the Statement of Comprehensive Income during the financial year is disclosed in Note 20.

	2017	2016
	R	R
The future aggregate minimum lease payments under non-cancellable agreements are as follows:		
No later than 1 year	18 624 850	17 915 981
Later than 1 year and no later than 5 years	27 367 321	46 959 354
	45 992 170	**64 875 335**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

31. CASH FLOWS FROM OPERATING ACTIVITIES

		2017	2016
		R	R
Net contribution income	16	4 256 038 032	3 918 440 700
Increase in insurance receivables	7	12 043 900	(7 832 392)
Cash Receipts from members - Contributions		**4 268 081 932**	**3 910 608 308**
Decrease in Insurance receivables - Other	7	(5 661 083)	(715 854)
Less: Provision for impairment	21	(2 581 603)	(2 914 816)
Recovery under risk transfer arrangements outstanding claims provisions	7	1 905 237	(38 345)
Cash Receipts from members and providers		**(6 337 448)**	**(3 669 015)**
Cash Receipts from members and providers - Other loans and Receivables	7	2 419 656	(8 474 790)
Relevant healthcare expenditure	17;18	(3 712 106 868)	(3 448 712 203)
Increase in insurance liabilities	15	(15 389 742)	(9 646 249)
Increase in outstanding claims provision	14	46 494 763	20 038 345
Unclaimed cheques and credits write off	23	1 600 305	1 457 207
Cash paid to providers and employees - claims		**(3 679 401 543)**	**(3 436 862 899)**
Cash paid to providers and employees - non healthcare expenditure	19;20;26;27	(413 616 528)	(395 260 380)
Eliminate non cash items:			
Depreciation	20	13 263 679	6 871 710
Impairment of intangible assets		469 197	-
Increase provision for leave	15	1 018 291	1 244 763
Increase in provision for retirement benefit obligation	11	(1 117 636)	68 983
Increase in trade and other payables	15	12 450 370	14 996 630
Cash paid to providers and employees - non healthcare expenditure		**(387 532 626)**	**(372 078 294)**

32. TOTAL TRUSTEE REMUNERATION AND CONSIDERATION EXPENSES

	Fees for attending Board meetings	Monthly fees for Executive Committee	Fees for attending subcommittee meetings	Total remuneration	Travel & Accommodation	Consultation Fees	Total considerations
	R	R	R	R	R	R	R
2017							
RF Camphor	130 397	44 450	78 876	253 723	-	136 800	390 523
PA Delport	105 831	31 750	84 821	222 402	-	-	222 402
LB Dlamini	86 931		54 595	141 526	14 375	-	155 901
GS Du Plessis	93 300		95 484	188 784	-	-	188 784
PM Kennedy	100 800		92 086	192 886	20 049	42 775	255 710
E Marx	100 800		48 562	149 362	-	-	149 362
CM Mowatt	100 800		126 511	227 311	25 093	-	252 404
S Stevens	100 800		63 692	164 492	17 275	-	181 767
JCW Van Rooyen	100 800		31 900	132 700	-	-	132 700
JH Windell	100 800		63 692	164 492	17 275	-	181 767
	1 021 259	**76 200**	**740 218**	**1 837 677**	**94 067**	**179 575**	**2 111 319**

	Fees for attending Board meetings	Monthly fees for Executive Committee	Fees for attending subcommittee meetings	Total remuneration	Travel & Accommodation	Consultation Fees	Total considerations
	R	R	R	R	R	R	R
2016							
RF Camphor	124 722	42 000	66 195	232 917	-	-	232 917
PA Delport	99 780	30 000	76 409	206 189	-	-	206 189
LB Dlamini	83 148	-	51 695	134 843	13 871	-	148 714
GS Du Plessis	63 040	-	89 520	152 560	-	-	152 560
PM Kennedy	83 148	-	63 044	146 192	13 871	-	160 063
JP Lachmann (Appointed 21 April 2016)	57 932	-	31 500	89 432	-	10 000	99 432
E Marx (Elected 21 September 2016)	37 824	-	2 500	40 324	3 783	-	44 107
J Moncrieff (Deceased 13 June 2016)	25 216	-	-	25 216	-	-	25 216
CM Mowatt	70 540	-	112 846	183 386	23 959	-	207 345
WJ Myburgh (Term of Office expired 03 June 2016)	37 824	-	22 696	60 520	-	-	60 520
LH Petersen (Resigned 25 January 2016)	-	-	-	-	-	-	-
E Steenkamp (Resigned 24 March 2016)	12 608	-	7 565	20 173	2 522	-	22 695
S Stevens	83 148	-	51 695	134 843	13 871	-	148 714
JCW Van Rooyen (Appointed 21 September 2016)	37 824	-	2 500	40 324	-	10 000	50 324
JH Windell	83 148	-	51 695	134 843	13 871	-	148 714
	899 902	**72 000**	**629 860**	**1 601 762**	**85 748**	**20 000**	**1 707 510**

The 2016 and 2017 amounts are disclosed as per the 2013 SAICA guide categories. Travel & Accommodation expenses are paid in order for members to attend Board/Subcommittee meetings/other meetings in Pretoria, or if needed at another location in South Africa.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

33. RELATED PARTY TRANSACTIONS

The Scheme is governed by the Board of Trustees which is elected by the members and appointed by the Board of Trustees and employers.

Parties with significant influence over the Scheme:

*Key management personnel of the Scheme and their close family members.

Key management personnel being those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board of Trustees, the Principal Officer and Executives of the Scheme. The disclosure deals with full-time personnel who are compensated on a salary basis (Principal Officer and managers) and part-time personnel who are compensated on a fee basis (Board of Trustees).

*Close family members include family members of the Board of Trustees, Principal Officer and Executives of the Scheme.

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

Contributions received

This constitutes the contributions paid by the related party, in his or her individual capacity as a member of the Scheme. All contributions were on the same terms 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.

Personal medical savings account balances

The amounts owing to the related parties relate to personal medical savings account balances to which the parties have a right. In line with the terms applied to other members, the balances earn monthly interest on the savings funds invested, on an accrual basis. 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, as applicable to other members.

Service provider fees paid/payable

These constitute fees paid to a healthcare provider (medical practitioner). Fees are paid on the same basis as applicable to third parties. Invoices paid for non-healthcare providers are also included.

Principal Officer's compensation

This total includes salary cost, retirement benefits, medical benefits, leave encashment, other benefits and a performance bonus.

Bestmed's Principal Officer of the past 21 years, Dries la Grange, left the employment of Bestmed earlier than his planned retirement at the end of 2018. His last day of office was 31 March 2017. Having regard to Bestmed's operational imperatives, the Board of Trustees and Dries concluded a mutual separation agreement in terms whereof a severance payment of R6.5 million, was made to Dries.

The following related party transactions occurred during the financial year:

	2017	2016
	R	R
Board of Trustees		
Gross medical scheme contributions received	703 701	618 931
Medical scheme contributions received - risk portion	618 600	544 300
Medical scheme contributions received - personal medical savings portion	85 101	74 631
Gross benefits paid out	427 272	756 413
Benefits paid from risk pool	328 563	667 458
Benefits paid from personal medical savings available	98 709	88 955
Saving available at year-end	34 604	69 347
Trustee remuneration and travel and accommodation expenses (Note 32)	2 111 319	1 707 510
Trustee other expenses	128 356	636 931
Principal Officer		
Gross medical scheme contributions received	27 489	98 736
Medical scheme contributions received - risk portion	23 364	83 916
Medical scheme contributions received - personal medical savings portion	4 125	14 820
Gross benefits paid out	7 364	30 232
Benefits paid from risk pool	2 312	14 308
Benefits paid from personal medical savings available	5 052	15 924
Saving available at year-end	(913)	14
Principal Officer's compensation (Note 29)	7 699 079	4 657 446
Leave provision at end of year	-	221 789
Close family members of Principal Officer		
Gross medical scheme contributions received	21 381	159 888
Medical scheme contributions received - risk portion	17 475	133 380
Medical scheme contributions received - personal medical savings portion	3 906	26 508
Gross benefits paid out	13 891	133 081
Benefits paid from risk pool	1 481	106 563
Benefits paid from personal medical savings available	12 410	26 518
Saving available at year-end	(8 504)	-
Compensation to close family members of Principal Officer	340 074	1 868 799
Leave provision at end of year	-	67 584

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

33. RELATED PARTY TRANSACTIONS (CONTINUED)

	2017	2016
	R	R
Acting Principal Officer		
Gross medical scheme contributions received	62 400	-
Medical scheme contributions received - risk portion	49 920	-
Medical scheme contributions received - personal medical savings portion	12 480	-
Gross benefits paid out	7 701	-
Benefits paid from risk pool	2 727	-
Benefits paid from personal medical savings available	4 974	-
Saving available at year-end	48 783	-
Acting Principal Officer's compensation (Note 29)	4 207 662	-
Leave provision at end of year	238 995	-
Key management		
Gross medical scheme contributions received	563 092	549 582
Medical scheme contributions received - risk portion	468 420	471 488
Medical scheme contributions received - personal medical savings portion	94 672	78 094
Gross benefits paid out	564 788	391 075
Benefits paid from risk pool	473 598	324 143
Benefits paid from personal medical savings available	91 190	66 932
Saving available at year-end	177 679	200 481
Compensation to key management personnel	18 606 222	18 012 860
Leave provision at end of year	683 846	731 998
Service providers connected to key management and Board of Trustees		
Gross benefits paid to related party service providers	1 042 826	1 196 862

Employees and management

The Scheme grants loans to employees and management, repayable over a maximum period of 60 months (Note 6).

Finance charges	-	270

34. CRITICAL ACCOUNTING JUDGEMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Scheme's accounting policies, the Board of Trustees has made a number of judgements that had the most significant effect on the amounts recognised in the financial statements.

Certain critical accounting judgements in applying the Scheme's accounting policies and key assumptions concerning the future and other key sources of estimating uncertainty at the statement of financial position date, are discussed below:

(a) The ultimate liability arising from claims made under insurance contracts

There are some sources of uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for such claims. Initial estimates are made by staff relating to the best calculations on reported claims and derived as the claims process develops. All estimates are revised and adjusted at year-end by management. Refer to Note 17 for assumptions made.

(b) Impairment provision on debtors

Detailed disclosure of the annual impairment review of the Scheme is disclosed under Note 7 and 39.

(c) Risk transfer arrangement assumptions

Detailed disclosure of the risk transfer arrangement assumptions is made under Note 18.

(d) Post-retirement medical benefits

The Scheme provides post-retirement healthcare benefits to retired employees. An independent qualified actuary carries out valuations of the obligations on an annual basis. Details are disclosed under Note 11.

(e) Outstanding claims provision

Detailed disclosure of the outstanding claims provision assumptions is made under Note 14.

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

35. EVENTS AFTER REPORTING PERIOD

No events were noted, other than those disclosed on the Board of Trustees Report Note 10, took place between the Statement of Financial Position as at 31 December 2017 and the date of this report.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

36. MATTERS OF NON-COMPLIANCE

Non-compliance with Section 26(7) of the Medical Schemes Act - Contributions not received within three days of becoming due

There were instances where the Scheme, in absence of any agreement or understanding, received contributions more than three days after due date. Contribution receivables are amounts receivable from individuals or employer groups and are collected by debit orders or cash payments. If not received within three days of due date, benefits of individuals are suspended and terminated if not received within 60 days. Employer group discrepancies are actively monitored and rectified on a monthly basis.

Non-compliance with Regulation 28(5) - Payment of commission on receipt of contribution

"Regulation 28(5) of the Act states that, payment by a medical scheme to a broker in terms of sub regulation (2) shall be made on a monthly basis and upon receipt by the scheme of the relevant monthly contribution in respect of that member.

In certain instances where the employer and employee contributions are paid separately to the Scheme, the broker commission is paid before both employee and employer contribution has been received.

The Scheme management will ensure the necessary changes to the IT systems to ensure broker commissions are only paid once the full premium is received, irrespective of the source of payment of the premium.

Non-compliance with Section 33(2)(b) of the Medical Schemes Act - Option self-sufficiency in terms of membership and financial performance financially sound

The Act stipulates that a benefit option shall be self-supporting in terms of membership and financial performance. During the year under review five benefit options of the Scheme, namely Beat3, Pace2, Pace3, Pace4 and Pulse1 made a net healthcare deficit.

After accounting for other income Pace2, Pace4 and Pulse1 options showed a net deficit.

The Scheme monitors the results of all options and evaluates different strategies to improve the financial outcomes of all options. The different financial results reflect the different disease burdens in each option, among many other factors.

The strategy on sustainability of options has to balance short- and long-term financial considerations, with fairness to both healthy and sick members and with continued affordability of cover for members on different levels of income and needs.

The Scheme remains committed to comply with the applicable legislation, as far as possible, but also focuses on the overall stability and financial position of the Scheme as a whole and not only on individual options.

Non-compliance with Section 35(6)(a) of the Medical Schemes Act - Borrowings

Section 35(6)(a) states that "A medical scheme shall not encumber its assets."

Bestmed registered as a financial service provider with the Financial Services Board (FSB). Registration number 44058. The FSB required a guarantee of R1 million in terms of section 8(7) of the FSB Board notice 106 of 2008.

In addition, the terms of the Scheme building lease agreement required a guarantee to an amount of R2,3 million.

The Scheme's banker issued these guarantees as part of the Scheme's facilities and required no additional security

Application for the renewal of guarantees exemption were lodged with the Council in August 2017. At the date of the report the Council has not granted the Scheme exemption for the guarantees to date.

Non-compliance with Section 35(8)(a) of the Medical Schemes Act - Investments in employers, administrators or any arrangement associated with the medical scheme

Section 35(8) of the Act states that "A medical scheme shall not invest any of its assets in the business of or grant loans to (a) An employer who participates in the medical scheme or any administrator or any arrangement associated with the medical scheme; (b) any other medical scheme; (c) any administrator and (d) any person associated with any of the above."

Due to some of the Scheme's employer groups being listed on the JSE, investments were made in certain of its employer groups listed on the JSE through the portfolios of the investment products the Scheme utilises. This is also applicable to JSE listed administrators.

The Council for Medical Schemes has granted the Scheme an exemption from section 35(8) of the Medical Schemes Act.

Non-compliance with Section 59(2) of the Medical Schemes Act - Claims not paid within 30 days

Section 59(2) of the Medical Schemes Act states that "claims submitted to the scheme should be paid out within 30 days after the day on which the claim was received".

There were certain claims paid after 30 days from the date that the claims were received.

Claims received at Bestmed are assessed, rejected, paid or pended within 30 days of receipt. There are various reasons that a claim will be pended where further information, assistance or motivation is required. All related claims will pend along with the authorisation and will be paid or rejected once the authorisation is finalised, pending the outcome. Pend reports are also reviewed by the claims supervisors to follow up on long outstanding pended authorisations with the relevant department.

Non-compliance with Section 65(3) of the Medical Schemes Act - Broker commission paid to an unaccredited broker

Section 65(3) of the Medical Schemes Act states that "No person shall be compensated for providing services relating to the introduction or admission of a member to a medical scheme in terms of subsection (1) unless the Council has, in a particular case or in general, granted accreditation to such a person".

One instance was noted where commission was paid to a broker who was not accredited. This was an administration oversight as there is a system in place to prevent payment of commission to unaccredited brokers. The Scheme does, as a courtesy, issue brokers with written notification at least 3 months before expiry of their accreditation with CMS to renew. A greater effort will be made to ensure that only accredited brokers are remunerated.

Non-compliance with Regulation 10(6) of the Act - Personal Medical Savings accounts

Regulation 10(6) of the Act states that "The funds in a member's medical savings account shall not be used to pay for the cost of a prescribed minimum benefit."

It was noted that for certain prescribed minimum benefit "PMB" claims, where a co-payment was applicable, that the payments were made from the member's savings account. This occurred when a member utilised the Bestmed Application to fund their co-payments.

The Bestmed application has been modified to block such instances from re-occurring.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

37. SURPLUS/(DEFICIT) PER BENEFIT OPTION

2017	Beat1*	Beat2*	Beat3*	Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
	R	R	R	R	R	R	R	R	R	R	R
Average members for the financial year	**5 739**	**24 246**	**7 211**	**5 047**	**29 330**	**10 136**	**6 062**	**2 929**	**3 252**	**807**	**94 758**
Risk contribution income	**143 274 519**	**585 985 384**	**263 472 688**	**300 770 792**	**1 361 334 562**	**682 505 750**	**470 346 104**	**302 200 636**	**94 602 404**	**51 545 193**	**4 256 038 032**
Relevant healthcare expenditure	**(115 834 876)**	**(467 806 214)**	**(234 685 205)**	**(247 736 729)**	**(1 078 435 535)**	**(671 131 637)**	**(448 115 131)**	**(301 593 952)**	**(99 493 784)**	**(47 273 806)**	**(3 712 106 868)**
Net claims incurred	(116 181 476)	(469 270 408)	(236 270 163)	(248 846 043)	(1 084 882 488)	(673 359 587)	(449 447 695)	(302 237 658)	(99 690 163)	(47 322 531)	(3 727 508 212)
Risk claims incurred	(109 887 834)	(443 586 866)	(228 365 658)	(244 332 902)	(1 053 237 039)	(662 444 485)	(444 650 425)	(299 249 322)	(96 051 756)	(46 963 322)	(3 628 769 610)
Third party claims recoveries	127 975	1 444 322	163 356	1 133 560	1 171 259	425 758	1 985 838	288 300	-	543 540	7 283 907
Accredited managed healthcare services	(6 421 617)	(27 127 864)	(8 067 860)	(5 646 700)	(32 816 709)	(11 340 860)	(6 783 108)	(3 276 636)	(3 638 407)	(902 749)	(106 022 510)
Net income/(expenses) on risk transfer arrangements	346 599	1 464 195	1 584 958	1 109 313	6 446 953	2 227 950	1 332 565	643 706	196 379	48 725	15 401 344
Risk transfer arrangement premiums paid	(1 601 899)	(6 767 158)	(8 870 331)	(6 208 350)	(36 080 825)	(12 468 880)	(7 457 791)	(3 602 547)	(907 616)	(225 194)	(84 190 590)
Recoveries from risk transfer arrangements	1 948 498	8 231 353	10 455 289	7 317 663	42 527 779	14 696 830	8 790 355	4 246 253	1 103 994	273 919	99 591 934
Gross healthcare result	**27 439 643**	**118 179 171**	**28 787 483**	**53 034 063**	**282 899 027**	**11 374 113**	**22 230 973**	**606 684**	**(4 891 381)**	**4 271 387**	**543 931 164**
Broker service fees and other distribution fees	(3 618 412)	(16 723 551)	(5 325 208)	(2 237 827)	(27 266 983)	(6 585 592)	(5 356 641)	(1 519 464)	(1 789 602)	(35 194)	(70 458 474)
Administration and other operative expenses	(19 925 909)	(84 176 202)	(25 034 107)	(17 521 387)	(101 828 360)	(35 190 037)	(21 047 595)	(10 167 213)	(11 289 767)	(2 801 177)	(328 981 752)
Net impairment losses on healthcare receivables	(257 154)	(1 264 296)	(568 875)	(633 872)	(3 054 691)	(1 440 525)	(992 935)	(559 034)	(169 790)	(92 515)	(9 033 687)
Net healthcare result	**3 638 168**	**16 015 122**	**(2 140 707)**	**32 640 977**	**150 748 993**	**(31 842 041)**	**(5 166 197)**	**(11 639 026)**	**(18 140 539)**	**1 342 501**	**135 457 250**
Other income	**3 225 013**	**18 999 164**	**9 580 071**	**9 997 749**	**58 084 433**	**24 533 852**	**18 562 502**	**7 734 828**	**2 130 737**	**1 152 891**	**154 001 238**
Investment income	3 177 019	18 763 205	9 473 900	9 879 447	57 514 327	24 265 003	18 377 187	7 630 493	2 099 049	1 135 625	152 315 255
Scheme	3 150 768	15 490 747	6 970 119	7 766 496	37 427 504	17 649 992	12 165 906	6 849 545	2 080 347	1 133 540	110 684 964
Personal medical savings account trust monies invested	26 251	3 272 457	2 503 781	2 112 952	20 086 822	6 615 011	6 211 281	780 949	18 702	2 084	41 630 290
Other operating income	47 993	235 959	106 171	118 301	570 106	268 850	185 314	104 334	31 688	17 266	1 685 984
Other expenditure	**(430 398)**	**(5 259 444)**	**(3 397 833)**	**(3 109 154)**	**(24 887 622)**	**(8 878 963)**	**(7 771 793)**	**(1 659 535)**	**(285 547)**	**(147 483)**	**(55 827 772)**
Interest paid on personal medical savings trust accounts	(26 251)	(3 272 457)	(2 503 781)	(2 112 952)	(20 086 822)	(6 615 011)	(6 211 281)	(780 949)	(18 702)	(2 084)	(41 630 290)
Asset management fees	(190 114)	(934 696)	(420 570)	(468 623)	(2 258 338)	(1 064 983)	(734 079)	(413 295)	(125 526)	(68 397)	(6 678 621)
Own facility expenditure	(213 430)	(1 049 327)	(472 148)	(526 094)	(2 535 299)	(1 195 591)	(824 105)	(463 981)	(140 920)	(76 785)	(7 497 681)
Other losses	(603)	(2 964)	(1 334)	(1 486)	(7 162)	(3 377)	(2 328)	(1 311)	(398)	(217)	(21 180)
NET SURPLUS/(DEFICIT) FOR THE YEAR	**6 432 783**	**29 754 841**	**4 041 531**	**39 529 571**	**183 945 804**	**(16 187 152)**	**5 624 511**	**(5 563 733)**	**(16 295 349)**	**2 347 909**	**233 630 717**

* The Scheme offered thirteen benefit options for the year under review, ten original options and three Efficiency Discounted Options (EDOs).
The EDOs namely Beat1 Network, Beat2 Network and Beat3 Network are included in the original ten options for reporting purposes.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

37. SURPLUS/(DEFICIT) PER BENEFIT OPTION (CONTINUED)

2016	Beat1*	Beat2*	Beat3*	Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
	R	R	R	R	R	R	R	R	R	R	R
Average members for the financial year	**5 647**	**23 108**	**7 170**	**5 617**	**28 802**	**10 533**	**6 278**	**3 296**	**3 732**	**903**	**95 085**
Risk contribution income	**128 625 683**	**511 230 249**	**238 032 724**	**291 620 255**	**1 205 643 716**	**641 983 560**	**441 571 334**	**308 871 166**	**98 069 956**	**52 792 058**	**3 918 440 700**
Relevant healthcare expenditure	**(101 305 548)**	**(417 590 313)**	**(201 055 234)**	**(288 134 995)**	**(980 547 274)**	**(616 090 927)**	**(387 469 143)**	**(303 206 313)**	**(90 629 866)**	**(62 682 589)**	**(3 448 712 203)**
Net claims incurred	(101 604 950)	(418 815 592)	(202 170 986)	(289 009 069)	(985 029 091)	(617 730 008)	(388 446 115)	(303 719 153)	(95 993 092)	(63 008 513)	(3 465 526 570)
Risk claims incurred	(95 756 192)	(395 264 971)	(194 752 243)	(285 209 621)	(957 586 448)	(607 424 613)	(382 843 173)	(300 259 076)	(92 140 079)	(62 057 683)	(3 373 294 099)
Third party claims recoveries	99 592	792 515	134 729	2 117 909	2 898 597	790 940	1 011 014	11 773	78 935	-	7 936 003
Accredited managed healthcare services	(5 948 350)	(24 343 136)	(7 553 472)	(5 917 357)	(30 341 241)	(11 096 335)	(6 613 956)	(3 471 849)	(3 931 947)	(950 830)	(100 168 473)
Net income/(expenses) on risk transfer arrangements	299 402	1 225 279	1 115 751	874 075	4 481 817	1 639 081	976 972	512 840	5 363 226	325 924	16 814 367
Risk transfer arrangement premiums paid	(1 406 424)	(5 755 677)	(8 053 952)	(6 309 431)	(32 351 598)	(11 831 559)	(7 052 185)	(3 701 888)	(20 152 079)	(21 427 985)	(118 042 778)
Recoveries from risk transfer arrangements	1 705 827	6 980 956	9 169 703	7 183 506	36 833 416	13 470 640	8 029 157	4 214 728	25 515 305	21 753 908	134 857 146
Gross healthcare result	**27 320 135**	**93 639 935**	**36 977 490**	**3 485 260**	**225 096 442**	**25 892 633**	**54 102 191**	**5 664 853**	**7 440 090**	**(9 890 531)**	**469 728 498**
Broker service fees and other distribution fees	(3 838 672)	(17 182 593)	(5 616 484)	(2 849 402)	(28 179 972)	(7 271 922)	(5 710 742)	(1 837 603)	(2 301 007)	(127 031)	(74 915 428)
Administration and other operative expenses	(18 225 676)	(74 587 092)	(23 143 752)	(18 130 715)	(92 965 216)	(33 999 045)	(20 265 086)	(10 637 707)	(12 047 442)	(2 913 332)	(306 915 065)
Net impairment losses on healthcare receivables	(80 524)	(384 735)	(179 302)	(219 811)	(943 386)	(472 705)	(325 108)	(199 326)	(61 399)	(33 053)	(2 899 348)
Net healthcare result	**5 175 263**	**1 485 516**	**8 037 950**	**(17 714 668)**	**103 007 867**	**(15 851 039)**	**27 801 255**	**(7 009 783)**	**(6 969 758)**	**(12 963 947)**	**84 998 657**
Other income	**2 535 534**	**14 464 883**	**7 615 233**	**8 604 701**	**46 255 946**	**20 331 797**	**15 790 088**	**6 842 061**	**1 917 504**	**1 031 745**	**125 389 490**
Investment income	2 449 484	14 053 744	7 423 625	8 369 804	45 247 817	19 826 651	15 442 668	6 629 055	1 851 891	996 424	122 291 164
Scheme	2 409 883	11 514 178	5 366 083	6 578 423	28 233 253	14 146 910	9 729 701	5 965 346	1 837 521	989 183	86 770 481
Personal medical savings account trust monies invested	39 600	2 539 566	2 057 542	1 791 381	17 014 564	5 679 741	5 712 967	663 710	14 370	7 241	35 520 683
Other operating income	86 050	411 139	191 608	234 897	1 008 129	505 146	347 420	213 006	65 613	35 321	3 098 327
Other expenditure	**(416 916)**	**(4 342 343)**	**(2 897 711)**	**(2 821 366)**	**(21 435 049)**	**(7 894 725)**	**(7 236 348)**	**(1 597 705)**	**(302 071)**	**(162 117)**	**(49 106 351)**
Interest paid on personal medical savings trust accounts	(39 600)	(2 539 566)	(2 057 542)	(1 791 381)	(17 014 564)	(5 679 741)	(5 712 967)	(663 710)	(14 370)	(7 241)	(35 520 683)
Interest paid	(2 432)	(11 620)	(5 415)	(6 639)	(28 492)	(14 277)	(9 819)	(6 020)	(1 854)	(998)	(87 566)
Asset management fees	(171 775)	(820 722)	(382 490)	(468 905)	(2 012 444)	(1 008 381)	(693 525)	(425 205)	(130 977)	(70 508)	(6 184 931)
Own facility expenditure	(201 215)	(961 384)	(448 044)	(549 270)	(2 357 353)	(1 181 205)	(812 387)	(498 080)	(153 425)	(82 592)	(7 244 956)
Other losses	(1 895)	(9 052)	(4 219)	(5 172)	(22 196)	(11 122)	(7 649)	(4 690)	(1 445)	(778)	(68 215)
NET SURPLUS/(DEFICIT) FOR THE YEAR	**7 293 880**	**11 608 056**	**12 755 473**	**(11 931 333)**	**127 828 764**	**(3 413 967)**	**36 354 995**	**(1 765 427)**	**(5 354 325)**	**(12 094 319)**	**161 281 796**

* The Scheme offered thirteen benefit options for the year under review, ten original options and three Efficiency Discounted Options (EDOs).
The EDOs namely Beat1 Network, Beat2 Network and Beat3 Network are included in the original ten options for reporting purposes.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

38. INSURANCE RISK MANAGEMENT REPORT

Nature and extent of risks arising from insurance contracts

The primary insurance activity of the Scheme is to indemnify covered members and their dependants against the risk of loss arising as the result of the occurrence of a health related event. The Scheme is exposed to the uncertainty surrounding the timing and severity of claims. Insurance events are by nature random and the actual number and size of events during one year may vary from those estimated using established techniques.

Insurance risk - description of benefit options

The types of benefits offered by the Scheme in return for monthly contributions are:

Hospital benefits

The hospital benefit covers medical expenses for admission to hospital, provided that the Scheme has authorised the treatment, except in the case of a medical emergency where all admissions are covered.

Chronic illness benefit

Approved medication for 45 listed conditions of which 27 conditions on the Chronic Disease List (CDL) are covered by this benefit. These include conditions such as asthma, cholesterol and hypertension.

Day-to-day benefits

The day-to-day benefits include both the Joint Benefit Account and an insurance risk element - Protocol Treatment and Above Threshold Benefits (ATB). These benefits cover healthcare services where the cost occurs outside the hospital, such as visits to general practitioners and dentists. It also covers the cost of prescribed non-chronic medicine.

The primary insurance activity carried out by the Scheme assumes risks related to the health of the Scheme members and their registered dependants. As such, the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

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

Risk management objectives and policies for mitigating insurance risk

When assessing and managing insurance risk the Scheme takes the following main factors into account:

1. The size and composition of the risk pool for each type of contract

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome is likely to be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Scheme has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and the demographics of members covered.

2. Frequency and severity of claims

Insurance events are by their nature random and the actual number and size of events during any one year may vary from those estimated using established statistical techniques. The principal risk is that the frequency and severity of claims are greater than expected.

For insurance contracts issued, climatic and seasonal changes, as well as the spread of pandemics give rise to more frequent and severe claims. However, the data shows that the frequency and severity of claims stay relatively stable year-on-year. The quality and availability of effective private healthcare services further reduces the risk of sudden severe claim patterns.

3. Benefit utilisation

The Scheme manages this risk through pre-authorisation and case management for hospitalisation, approval of registration for chronic medicine benefits, applying medicine formularies as well as various disease management programmes for high-risk/high-cost diseases such as cancer.

Various data sets are used to monitor utilisation. These include:

Hospitalisation

Hospitalisation accounts for more than 50% of the risk benefits paid by the Scheme. When the cost of service providers caring for patients in hospital is added, the percentage of risk benefits covered increases to 70%. This risk is managed through pre-authorisation of procedures and case management, the objective being to provide appropriate and cost-effective care for members of the Scheme.

In managing this risk the average cost per admission, number of admissions per 1 000 lives, average cost per 1 000 lives and average number of bed days per admission are monitored on a monthly basis.

Medicine

Medicine for chronic diseases accounts for 10% of the risk benefits paid. This risk is managed through pre-authorisation of utilisation and the use of a medicine formulary. Members are also required to re-apply for medicine after a prescribed period thus ensuring that the clinical necessity of continuing with the treatment is frequently assessed.

Average cost per beneficiary, average number of items per prescription and average cost per item are monitored on a monthly basis.

Claims ratio

Claims paid expressed as a percentage of contributions received, is an important indicator of the stability of the risk pool and the ability of the Scheme to fulfil its obligation under the insurance contract it sells.

4. Impact of legislation and regulation

The medical scheme industry is governed by the Medical Schemes Act. The governance under the Act is fulfilled by a statutory body, the Council for Medical Schemes. Various legislative measures restrict the Scheme to fully manage its insurance risk, the main factor being the fact that the Scheme is not allowed to risk rate its members at all. This severely increases the risk in a risk pool with a too high load of above average claimers.

Managed care initiatives such as disease management programmes and preventative programmes such as a training programme for potential cardiovascular patients are implemented to reduce risk.

Sensitivity to insurance risk

The Scheme's profitability, reserves and, consequently, its solvency are sensitive to variables that arise from contribution increases relative to medical inflation and changes in the level of insurance events as well as the composition of the risk pool, all of which could have a material impact on the business of the Scheme.

Over and above daily and monthly management information on claims ratios and composition of the risk pool, the Scheme also makes use of the monitoring of the relative insurance events by the Scheme's actuaries. The actuaries provide estimates based on statistical models, on the probability of the occurrence of future events, thus predicting the profitability to year-end.

The accumulation of claims to the next claims payment run is monitored on a daily basis, both by volume and value. This ensures that any unexpected increase in utilisation is reported timeously. Furthermore, all severe cases of hospital admissions are monitored daily to ensure that treatment is done as effectively as possible. This also ensures that the Scheme is informed of possible high-value hospital claims in time.

The Scheme also has an independent monthly analysis of claims which is done by its actuaries. The actuaries also provide the Scheme with a monthly prediction of the outcome for the remainder of the financial year. This analysis is done based on the available data for the year together with the data for the past three years. The combined data set is run through a stochastic model which takes into account the expected behaviour of each beneficiary of the Scheme. The assumptions in the stochastic model are based on the past behaviour patterns of beneficiaries from different Schemes that participated in the same program, thus ensuring the reliability of the outcome.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

38. INSURANCE RISK MANAGEMENT REPORT (CONTINUED)

Sensitivity to insurance risk (continued)

The table below summarises the concentration of insurance risk, with reference to net claims incurred, by age group and type of benefits provided.

2017 Age group	General Practitioners	Specialists	Pathology	Medicines	Hospitals	Other	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<30	20 164	80 628	28 730	44 071	285 574	74 040	533 207
30-39	11 837	56 582	21 505	35 529	171 463	47 995	344 911
40-49	12 725	61 720	27 106	52 758	174 904	68 107	397 321
50-59	18 001	97 730	36 410	85 710	269 631	100 353	607 835
60-69	17 165	121 016	40 182	94 013	324 608	111 582	708 566
70 +	22 944	152 679	54 903	102 692	455 886	140 951	930 054
Total	**102 836**	**570 355**	**208 836**	**414 773**	**1 682 065**	**543 029**	**3 521 894**

2016 Age group	General Practitioners	Specialists	Pathology	Medicines	Hospitals	Other	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<30	22 257	74 513	26 847	40 388	273 284	86 218	523 507
30-39	12 175	53 228	20 812	29 310	164 314	55 836	335 675
40-49	12 942	55 393	24 544	45 898	158 215	71 944	368 934
50-59	18 435	85 630	33 269	77 413	237 794	109 748	562 289
60-69	17 137	103 688	34 592	77 044	281 547	114 257	628 266
70 +	22 803	129 925	48 548	80 109	386 554	143 891	811 830
Total	**105 750**	**502 377**	**188 612**	**350 162**	**1 501 707**	**581 893**	**3 230 501**

General Practitioners benefits cover the cost of all visits by members to and of the procedures performed by them, both in and out-of-hospital.

Specialists benefits cover the cost of all visits by members to specialists and of the procedures performed by them, both in and out-of-hospital.

Pathology benefits cover the cost of pathology tests performed, mainly in hospital but also out-of-hospital where a specific option covers such benefits from the risk pool.

Medicine benefits cover the costs of chronic medicine benefits as well as acute medicine where a specific option covers such benefits from the risk pool.

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

Risk transfer arrangements

The Scheme entered into various capitation agreements with medical service providers (refer Note 18). These risk transfer arrangements spread the risk and minimise the effect of losses and are on annually renewable terms. The amount of each risk retained depends on the Scheme's evaluation of the specific risk, subject in certain circumstances to maximum limits on the basis of characteristics of coverage.

According to the terms of the risk transfer arrangements, the third party agrees to reimburse the ceded amount in the event the claim is paid. According to the terms of the capitation agreements, the suppliers provide certain minimum benefits to the Scheme members, as and when required by the members.

The Scheme does, however, remain liable to its members if any supplier fails to meet the obligations it assumes. When selecting suppliers, the Scheme considers their relative security and their ability to provide the relevant service. The security of the supplier is assessed from public rating information and from internal investigations such as considering capital adequacy, solvency, capacity and appropriate resources.

The following tables summarises the concentration of insurance risk transferred, with reference to the amount of the insurance claims incurred by option and in relation to the type of risk covered/benefits provided:

2017 Options	General Practitioners	Specialists	Optometry	Dentistry Basic	Dentistry Specialised	Basic Radiology	Emergency evacuation
Beat1	-	-	-	-	-	-	100%
Beat2	-	-	-	-	-	-	100%
Beat3	-	-	100%	-	-	-	100%
Beat4	-	-	100%	-	-	-	100%
Pace1	-	-	100%	-	-	-	100%
Pace2	-	-	100%	-	-	-	100%
Pace3	-	-	100%	-	-	-	100%
Pace4	-	-	100%	-	-	-	100%
Pulse1	100%	Limited	100%	100%	-	100%	100%
Pulse2	100%	Limited	100%	100%	100%	100%	100%

2017 Options	Medical Apparatus	Supplementary Services	Medicine				
			CDL Chronic	Non-CDL Chronic	Acute	Over the counter	Biological
Beat1	-	-	-	-	-	-	-
Beat2	-	-	-	-	-	-	-
Beat3	-	-	-	-	-	-	-
Beat4	-	-	-	-	-	-	-
Pace1	-	-	-	-	-	-	-
Pace2	-	-	-	-	-	-	-
Pace3	-	-	-	-	-	-	-
Pace4	-	-	-	-	-	-	-
Pulse1	100%	-	100%	-	100%	100%	-
Pulse2	100%	100%	100%	100%	100%	100%	100%

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.

Underwriting risk

Underwriting risk is the risk that the actual exposure of the Scheme in respect of outstanding claims will exceed best 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 yet been reported.

The Scheme participates in Insight Actuaries & Consultants risk management model. The model was developed by the Scheme's external actuaries and is a stochastic risk management model that was specifically designed and developed for medical schemes. Insight Actuaries & Consultants runs on detailed beneficiary-level demographic data and claims data on claim-line level. The database is updated on a monthly basis and reconciled to the Scheme's financial statements. Actual claims experience is compared to Insight Actuaries & Consultants' projected claims experience every month to ensure that the model provides a reliable basis from which to project expected claims experience. Allowance is made within the setup of Insight Actuaries & Consultants for inflation (both the severity and utilisation of claims) and seasonal variation of claim patterns. The impact that demographic changes are expected to have on claims incurred is automatically incorporated in all projected results.

Insight Actuaries & Consultants estimates claims incurred by service date based on the Scheme's actual demographic structure and past claims. It has been used by the Scheme for more than seven years, and has proven to be a reliable predictor of claims incurred. Results from Insight Actuaries & Consultants are reconciled with the actual claims paid on a monthly basis and adjustments are made where necessary to ensure that the results remain accurate. By comparing the claims predicted by Insight Actuaries & Consultants to actual claims paid by the Scheme, the actuaries are able to calculate an appropriate provision for outstanding claims. The outstanding claims provision is calculated using traditional "chain ladder" methods based on claims development patterns derived from a period of 12 months prior to the calculation date.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

38. INSURANCE RISK MANAGEMENT REPORT (CONTINUED)

Underwriting risk (continued)

The outstanding claims provision is calculated after considering the results of both Insight Actuaries & Consultants' model and the chain ladder techniques. In general terms, chain ladder methods tend to be reliable when claims administration processes are stable, whether or not this is the case for beneficiaries' claims propensities. Conversely, using methodology based on Insight Actuaries & Consultants' projections (which bear some similarity to traditional Loss Ratio methods) tend to be more reliable when beneficiaries' claims propensities are stable, whether or not this is the case for administrative processes. Insight Actuaries & Consultants' model also adjusts for demographic and benefit changes, whereas these are not automatically reflected by traditional chain ladder methods.

Finally, consideration was given to claims already paid after the reporting date, specifically claims processed between January 2018 and March 2018 for 2017 services. A significant portion of the claims incurred in 2017 are therefore expected to have been paid. The chain ladder method has therefore been used to estimate claims for future payment months.

As opposed to claims for 2017 that have already been paid, the claims for 2017 estimated to be paid in future payment months are still subject to uncertainty. The table below illustrates the effect of a 10% increase and decrease in this amount.

2017 Scenario	Claims for 2017 services paid from Jan 2018 to Mar 2018	2017 Claims estimated at that time to be paid after Mar 2018	Outstanding claims provision	% Change in outstanding claims provision
	R	R	R	%
Base scenario	139 691 448	14 707 588	154 399 036	
10% increase	139 691 448	16 178 348	155 869 796	0.95%
10% decrease	139 691 448	13 236 829	152 928 277	(0.95)

39. FINANCIAL RISK MANAGEMENT REPORT

Financial risk factors

The Scheme's activities expose it to a variety of financial risks as its financial assets include the effects of changes in equity market prices, creditworthiness and interest rates. The key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, interest rate risk, market risk and liquidity risk. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments that the Scheme holds to meet its obligations to its members.

The Board of Trustees has overall responsibility for the establishment and oversight of the risk management framework of the Scheme. The carrying amounts of the financial assets and financial liabilities per category are disclosed in the statement of financial position.

Risk management and investment decisions are made under the guidance and policies approved by the Investment Committee and Board of Trustees. The Investment Committee identifies, evaluates and economically hedges (where appropriate) financial risks associated with the Scheme's investment portfolio. The Investment Committee provides a statement of investment principles for approval by the Board of Trustees.

Investment risk

Investment risk is the risk that the investment returns on accumulated assets will not be sufficient to cover future liabilities. 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.

The Scheme's Investment Committee invests funds in line with the Medical Schemes Act 131 of 1998, as amended. Expert advice is obtained from Willis Towers Watson to assist in developing an appropriate investment strategy and portfolio.

Given that the central purpose of the Scheme is to provide medical benefits to members rather than to maximise investment returns, a moderate risk appetite is adopted. The Committee believes that the primary objective that the Scheme needs to manage is to earn a sufficient investment return in excess of inflation over a five-year period, without losing focus on downside protection over a one-year period. The Committee believes that risk should be managed in part by holding a diversified portfolio, with a significant proportion of the assets providing returns that offer protection against inflation over the longer term.

In appointing active managers, the Committee believes that the better investment strategy is to select fundamental research orientated managers with a long-term focus, where the focus is on assessing the intrinsic value of an asset, or buying shares that have strong "value" characteristics (i.e. low price/earnings ratio, high dividend yield, low price to book ratio).

To achieve this goal, the Board has identified that an amount not exceeding the reserves of the Scheme as defined by Regulation 29, will be allocated to a strategic investment portfolio which will be managed by an Investment Committee in conjunction with the Scheme's appointed investment advisors. The balance of the available cash is held in cash and short-term investments to meet the daily operational needs of the Scheme.

The Investment Committee monitors the performance of the Scheme's investments in conjunction with the Scheme's investment advisors to ensure that maximum returns are achieved.

Personal medical savings trust investment risk is the risk that the investment balances and returns on the trust monies will not be sufficient to cover the trust liability. The trust monies are not a direct Scheme risk as these monies belong to the members and are held through trust accounts. However, the Scheme still has an obligation to oversee the investment performance of these trust assets to ensure that the personal medical savings liabilities towards members are sufficiently covered. The Scheme has adopted a conservative investment approach in this regard by investing in low risk bank accounts and money market funds.

Breakdown of investments

The investments managed by the Investment Committee are split between the following categories in the annual financial statements:

- Investment property;
- Available-for-sale investments; and
- Cash and cash equivalents.

Available-for-sale investments

The Scheme invests in equity through units in a linked insurance fund policy with a registered long-term insurer with underlying assets in domestic equity and through segregated portfolios with financial institutions. The performance of the investments are measured against the Consumer Price Index (CPI) with the objective to outperform CPI as follows over any rolling five-year period:

- Domestic only portfolios - CPI + 3%
- Domestic with global components portfolios - CPI + 4%

To better understand the risks associated with these investments, the following disclosure is presented under each category.

	2017	2016
	R	R
Scheme		
Segregated portfolio	663 587 430	717 923 106
- Listed Equity	275 626 109	220 741 330
- Money Market Instruments	154 882 842	140 173 743
- Listed Bonds	150 933 557	219 505 734
- SA Listed Properties	76 331 136	69 695 031
- Exchange Traded Funds	5 813 787	5 033 682
- International Fixed Interest Instruments	-	62 773 588
Linked Insurance Fund policies	453 651 722	350 533 758
Collective Investment Schemes	533 707 471	285 214 835
Total	**1 650 946 623**	**1 353 671 699**
Personal medical savings account trust monies invested		
Segregated portfolio	232 535 098	214 760 299
- Money Market Instruments	229 199 800	214 760 299
- Listed Bonds	3 335 298	-
Linked Insurance Fund Policies	248 254 030	228 253 603
Total	**480 789 128**	**443 013 902**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

39. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

Market risk

Market risk refers to the risk that changes in market prices such as interest rates, equity prices and foreign exchange rates will affect the value of the Scheme's holdings in financial instruments or its income. The objective of the management of market risk is to manage and control market risk exposure within acceptable parameters, while optimising the return on risk.

The insurance liabilities of the Scheme are settled within one year. No insurance liabilities are discounted and therefore changes in market interest rates would not affect the Scheme's surplus or deficit.

Risks identified per investment and cash instrument	Currency Risk	Price Risk	Interest Rate Risk
Segregated portfolio			
- Listed Equity	-	Yes	-
- Money Market Instruments	-	-	Yes
- Listed Bonds	-	-	Yes
- SA Listed Properties	-	Yes	-
- Exchange Traded Funds	-	Yes	-
Money Market Funds	Yes	-	Yes
Collective Investment Schemes	-	-	Yes
Cash and cash equivalents.	-	-	Yes

Currency risk

The benefits of the Scheme are Rand-denominated and therefore the Scheme does not have any significant net currency risk on its benefits. The Scheme is exposed to net currency risk through its foreign investment in bonds and international fixed interest funds of which the impact is insignificant.

Price risk

The Scheme is indirectly exposed to equity securities price risk, SA properties and commodities because of investments via linked insurance fund policies. To manage the risk arising from investments in equity securities, the Scheme invests in equities via a Linked Insurance Fund Policy with a long-term insurer with approval to enter into Linked Insurance Fund Policies as defined in Section 1 and Schedule 2 of the Long-term Insurance Act 52 of 1998.

Equity securities, SA properties and commodities are classified as available-for-sale investments and market gains/losses would increase/decrease the available-for-sale fair value reserve of the Scheme.

This risk is managed by the mandates issued to the investment managers which are utilised by the Scheme. Investment managers are required to invest within the restrictions of Regulation 30 of the Act. Furthermore, investment risks and exposure are reviewed and assessed on a regular basis by the Investment Committee of the Scheme, management as well as by the Scheme's Investment Advisors - Willis Towers Watson.

Sensitivity analysis table
Effect on equity if the listed equity index strengthens/weakens by 10%

2017	Carrying value at year-end	Effect on equity if the listed equity index strengthens/(weakens) by 10%
	R	R
Listed Equity	275 626 109	27 562 611
SA Listed Properties	76 331 136	7 633 114
Exchange Traded Funds	5 813 787	581 379

2016	Carrying value at year-end	Effect on equity if the listed equity index strengthens/(weakens) by 10%
	R	R
Listed Equity	220 741 330	22 074 133
SA Listed Properties	69 695 031	6 969 503
Exchange Traded Funds	5 033 682	503 368

Sensitivity analysis

The Scheme acquired units in a linked insurance fund with exposure to assets in domestic equity. The value of each unit is calculated as the aggregate market value of all underlying assets at the end of the day, with due allowances being made where applicable for accrued interest and dividend income. From the aggregate market value is deducted any direct costs the manager may incur in the management of the portfolio. The resultant net aggregate market value is then divided by the number of units to derive the Unit Price. The table below shows the effect of changes in the market on the Unit Price.

Percentage effect on amount of Accumulated Funds

	% Decrease in market			% Increase in market		
	30%	15%	5%	5%	15%	30%
31 December 2017	(117 776 252)	(58 888 126)	(19 629 375)	22 682 586	68 047 758	136 095 516
31 December 2016	(105 160 127)	(52 580 064)	(17 526 688)	17 526 688	52 580 064	105 160 127

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

39. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

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 combination of fixed and floating rate investments as well as fixed deposit investments. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

This risk is managed by regular reviews by the Investment Committee of the Scheme, management as well as by the Scheme's Investment Advisors - Willis Towers Watson. The performance of the investments are measured against the Consumer Price Index (CPI) with the objective to outperform CPI over any rolling five-year period.

Sensitivity analysis table

Effect on statement of comprehensive income if interest rate increases/decreases by 1%

The following table summarises the Scheme's cash and cash equivalents and available-for-sale investments that are exposed to interest rate risks, disclosed at carrying amounts and categorised by the earlier of contractual repricing or maturity dates.

	1 - 3 months	4 - 12 months	1 - 5 years	Carrying value at year-end Total	Effect if interest rate increase by 1%
As at 31 December 2017	**R**	**R**	**R**	**R**	**R**
Money Market Instruments					
Scheme	137 925 212	1 833 164	15 124 462	154 882 839	1 548 828
Personal medical savings account trust monies invested	104 130 235	125 069 565	-	229 199 800	2 291 998
Listed Bonds					
Scheme	4 825 453	3 167 555	142 940 548	150 933 557	1 509 336
Personal medical savings account trust monies invested	-	3 335 298	-	3 335 298	33 353
Exchange Traded Funds	-	-	5 813 787	5 813 787	58 138
Collective Investment Schemes	205 931 808	-	327 775 663	533 707 471	5 337 075
Cash and cash equivalents					
Scheme	160 446 441	-	-	160 446 441	1 604 464
Personal medical savings account trust monies invested	160 147 569	-	-	160 147 569	1 601 476
Total	**773 406 718**	**133 405 583**	**491 654 460**	**1 398 466 761**	**13 984 668**

	1 - 3 months	4 - 12 months	1 - 5 years	Carrying value at year-end Total	Effect if interest rate increase by 1%
As at 31 December 2016	**R**	**R**	**R**	**R**	**R**
Money Market Instruments					
Scheme	91 868 770	16 764 252	20 745 778	129 378 800	1 293 788
Personal medical savings account trust monies invested	90 140 228	123 908 884	-	214 049 112	2 140 491
Listed Bonds					
Scheme	8 816 401	15 520 988	196 524 958	220 862 348	2 208 623
Personal medical savings account trust monies invested	-	711 188	-	711 188	-
Exchange Traded Funds	-	-	5 150 062	5 150 062	51 501
Collective Investment Schemes	229 069 490	-	46 712 703	275 782 193	2 757 822
Cash and cash equivalents					
Scheme	130 581 559	-	-	130 581 559	1 305 816
Personal medical savings account trust monies invested	123 308 771	-	-	123 308 771	1 233 088
Total	**673 785 219**	**156 905 313**	**269 133 501**	**1 099 824 033**	**10 991 128**

The table below summarises the effective interest rate at year end by major currencies across applicable Scheme financial assets.

	2017	2016
	%	%
Available-for-sale investments		
Scheme	9,8%	7,6%
Personal medical savings account trust monies invested	8,6%	8,3%
Cash and cash equivalents		
Scheme	7,1%	6,9%
Personal medical savings account trust monies invested	2,9%	2,9%
Loans to management	0,0%	7,5%

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Scheme's principal financial assets are cash and cash equivalents, trade and other receivables and investments. The Scheme's credit risk is primarily attributable to accounts receivables by members and service providers.

Trade and other receivables

Trade and other receivables consist of insurance receivables and loans and receivables.

The main components of insurance receivables are:

- 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:

- Suspending benefits on all member accounts when contributions have not been received for 30 days;
- Terminating benefits on all member accounts when contributions have not been received for 60 days;
- Ageing and pursuing unpaid accounts on a monthly basis;
- Details of the process to estimate impairment provisions are included elsewhere in Note 39; and
- Actively pursuing all contributions not received after three days of becoming due, as required by Section 26(7) of the Medical Schemes Act 131 of 1998, as amended.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

39. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

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:

	2017	2016
	R	R
Available-for-sale investments	2 131 735 751	1 796 685 602
Scheme	1 650 946 623	1 353 671 699
Personal medical savings account trust monies invested	480 789 128	443 013 902
Trade and other receivables	70 262 212	87 422 006
Insurance receivables	51 552 230	64 387 132
Other loans and receivables	17 460 555	19 880 211
Recovery under risk transfer arrangements outstanding claims provisions	1 249 426	3 154 663
Cash and cash equivalents	320 594 010	253 890 330
Scheme	160 446 441	130 581 559
Personal medical savings account trust monies invested	160 147 569	123 308 771
	2 522 591 972	**2 137 997 938**

The main components of insurance receivables are contribution receivables and member and service provider claims receivable. Contribution receivables are collected by means of debit orders or cash payments.

	2017	2016
	R	R
The maximum credit exposure to member and service provider claims receivables was:		
Member claim receivables	4 445 481	2 837 256
Service provider claim receivables	1 082 395	354 418
	5 527 876	**3 191 674**

Trade and other receivables disclosed by a quantitative analysis and maximum credit exposure at the end of the year:

	2017	2016
	R	R
TFinancial assets that are neither past due nor impaired	18 709 981	23 034 874
Financial assets that are past due but not yet impaired	51 552 230	64 387 132
Financial assets that are impaired	7 693 965	1 241 881
Provision for impairment	(7 693 965)	(1 241 881)
Total credit exposure	**70 262 212**	**87 422 006**

Impairment losses

The movement in the provision for impairment, for each class of financial asset, during the year was as follows:

	Trade and other receivables Insurance receivables			
	Contribution debtors	Member and service provider debtors	Personal medical savings account advances	Total
	R	R	R	R
Balance at 1 January 2016	375 596	750 240	131 513	1 257 349
Increase/(decrease) in provision for impairment	(296 241)	276 212	4 561	(15 468)
Balance at 31 December 2016	**79 355**	**1 026 452**	**136 074**	**1 241 881**
Balance at 1 January 2017	79 355	1 026 452	136 074	1 241 881
Increase/(decrease) in provision for impairment	136 589	3 722 986	2 592 510	6 452 085
Balance at 31 December 2017	**215 944**	**4 749 438**	**2 728 584**	**7 693 965**

Investments

Transactions are limited to high-quality financial institutions and the amount of exposure to any one financial institution is limited.

The Scheme limits its exposure to credit risk by investing in liquid securities and only with counterparties that have a credit rating of no less than zaA-1 as rated by Moody's Ratings. Owing to these high credit ratings the Board of Trustees does not expect any counterparty to fail to meet its obligations. Credit limits per institution are prescribed by Annexure B of the Regulations to the Medical Schemes Act 131 of 1998, as amended, which reduces the risk per individual institution. The utilisation of these credit limits are regularly monitored.

The table below shows the credit limit and balance of cash and cash equivalents as well as Money Market funds held at five major counterparties at year-end. No credit limits as per Regulation 30 were exceeded during the reporting period and the Board of Trustees does not expect any losses from non-performance of these counterparties.

Counterparty	Credit rating	2017 Credit limit	2017 Balance	2016 Credit limit	2016 Balance
		R	R	R	R
Nedbank	Aa1.za	896 610 921	145 246 574	756 596 076	130 162 557
ABSA	Aa1.za	896 610 921	238 473 162	756 596 076	241 959 142
Standard Bank	Aa1.za	896 610 921	168 118 382	756 596 076	120 328 668
FNB	Aa1.za	896 610 921	96 946 548	756 596 076	79 149 015
Investec	Aa1.za	896 610 921	65 036 623	756 596 076	33 586 529

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 (where available) or to historical information about counterparty default rates.

Aa1.za means highest short-term credit quality on the Moody's national scale. It indicates the strongest intrinsic capacity for the timely payment of financial commitments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

39. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

Insurance receivables

	2017	2016
	R	R
Counterparties without external credit rating		
Contribution debtors	47 457 116	59 501 016
Member claims debtors	4 445 481	2 837 256
Provider claims debtors	1 082 395	354 418

Contribution debtors are normally collected in the following month by way of a double debit order whilst member and provider claim debtors are collected from any future benefits that are due.

	2017	2016
	R	R
Cash and cash equivalents		
Counterparties with external credit ratings (Moody's)		
Aa1.za	320 594 010	253 890 330
	320 594 010	**253 890 330**

The Scheme applies the National Scale Short -Term Issue Credit Ratings for its short-term obligations. The rating relates to the capacity of the Scheme to meet its financial obligations.

Aa1.za means highest short-term credit quality on the Moody's national scale. It indicates the strongest intrinsic capacity for the timely payment of financial commitments.

Available-for-sale investments

The credit ratings of the available-for-sale investments are linked to the underlying investment instruments within the segregated portfolios, linked insurance policy and the money market funds. The Scheme's investment portfolios managed by Investec, Allan Gray, Coronation and Prudential are all managed in compliance with Annexure B of Regulation 30 of the Medical Schemes Act. As such the per issuer limits per Annexure B applies to all the mandates. The credit rating exposures are monitored by the Scheme's Investment Advisor, Willis Towers Watson, which ensures mandate compliance.

Fair values of financial assets by hierarchy level

Assets measured at fair value: 2017	Level 1	Level 2	Level 3
	R	R	R
Available-for-sale investments			
Scheme			
Segregated portfolio	635 719 808	-	-
Money Market Instruments	-	27 867 622	-
Linked Insurance Fund policies	-	453 651 722	-
Collective Investment Schemes	-	533 707 471	-
Personal medical savings account trust monies invested			
Segregated portfolio	4 134 002	-	-
Money Market Instruments	-	228 401 096	-
Linked Insurance Fund policies	-	248 254 030	-
	639 853 810	**1 491 881 940**	**-**

Assets measured at fair value: 2016	Level 1	Level 2	Level 3
	R	R	R
Available-for-sale investments			
Scheme			
Segregated portfolio	633 700 373	-	-
Money Market Instruments	-	37 510 030	-
Linked Insurance Fund policies	-	406 679 103	-
Collective Investment Schemes	-	275 782 193	-
Personal medical savings account trust monies invested			
Segregated portfolio	2 635 420	-	-
Money Market Instruments	-	212 124 880	-
Linked Insurance Fund policies	-	228 253 603	-
	636 335 793	**1 160 349 809**	**-**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

39. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

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

The Scheme invests in funds whose objectives range from achieving medium- to long-term capital growth and whose investment strategy does not include the use of leverage. The funds are managed by unrelated asset managers and apply various investment strategies to accomplish their respective investment objectives.

	Cash and cash equivalents	Loans and receivables	Available-for-sale financial assets	Insurance receivables and payables	Total carrying amount
2017	**R**	**R**	**R**	**R**	**R**
Investments					
- Segregated portfolio	-	-	663 587 430	-	663 587 430
- Linked Insurance Fund policies	-	-	453 651 722	-	453 651 722
- Collective Investment Schemes	-	-	533 707 471	-	533 707 471
Personal medical savings account trust investment					
- Segregated portfolio	-	-	232 535 098	-	232 535 098
- Linked Insurance Fund policies	-	-	248 254 030	-	248 254 030
Cash and cash equivalents					
- Scheme	160 446 441	-	-	-	160 446 441
- Personal medical savings account trust investment	160 147 569	-	-	-	160 147 569
Trade and other receivables	-	70 262 212	-	-	70 262 212
Loans and receivables	-	-	-	-	-
Personal medical savings account trust liability	-	-	-	(660 990 469)	(660 990 469)
Outstanding claims provision	-	-	-	(155 649 426)	(155 649 426)
Trade and other payables	-	-	-	(120 719 227)	(120 719 227)
	320 594 010	**70 262 212**	**2 131 735 751**	**(937 359 122)**	**1 585 232 850**

	Cash and cash equivalents	Loans and receivables	Available-for-sale financial assets	Insurance receivables and payables	Total carrying amount
2016	**R**	**R**	**R**	**R**	**R**
Investments					
- Segregated portfolio	-	-	717 923 106	-	717 923 106
- Linked Insurance Fund policies	-	-	350 533 758	-	350 533 758
- Collective Investment Schemes	-	-	285 214 835	-	285 214 835
Cash and cash equivalents					
- Scheme	130 581 559	-	-	-	130 581 559
- Personal medical savings account trust investment	123 308 771	-	-	-	123 308 771
Personal medical savings account trust investment	-	-	443 013 902	-	443 013 902
Trade and other receivables	-	87 422 006	-	-	87 422 006
Loans and receivables	-	-	-	-	-
Personal medical savings account trust liability	-	-	-	(583 457 231)	(583 457 231)
Outstanding claims provision	-	-	-	(109 154 663)	(109 154 663)
Trade and other payables	-	-	-	(122 640 308)	(122 640 308)
	253 890 330	**87 422 006**	**1 796 685 602**	**(815 252 202)**	**1 322 745 736**

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

Insurance receivables and payables included amounts due from/to:

- Contribution debtors
- Brokers
- MVA recoveries
- Recoveries from members for co-payments
- Provider balances
- Member balances excluding balances arising from personal medical savings accounts
- Reported claims not yet paid

The Scheme's maximum exposure to loss from its interests in funds is equal to the total fair value of its investments in the funds. Once the Scheme has disposed of its shares in a fund, it ceases to be exposed to any risk from that fund.

Pooled Investment Funds

The Scheme's investments are subject to the terms and conditions of the respective fund's offering documentation and are susceptible to market price risk arising from uncertainties about future values of the funds. The investment manager makes investment decisions after extensive due diligence of the underlying funds, its strategy and the overall quality of the underlying fund's manager. All of the Scheme's funds in the investment portfolio are managed by portfolio managers who are compensated by the Scheme for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of the Scheme's investments in each of the funds.

The right of the Scheme to request redemption of its investments in funds ranges in frequency from weekly to annually. The exposure to investments in funds at fair value, by strategy employed, is disclosed in the following table:

Strategy	Number of investee funds	Weighted average of net asset value of investee funds during 2017	Fair value of asset investment at 31/12/2017*	% of net assets attributable to holders of units**
		R	R	%
Investec Money Market Fund Class F Conservative maturity profile investing in money market instruments	1	297 311 640	205 931 808	0,64
Investec High Income Fund Class A Conservative maturity profile investing in money market instruments	1	204 991 279	206 548 380	2,33
Investec Stable Money Market Stable returns over the medium term, with a focus on conservative money market instruments	1	58 586 433	61 064 216	4,44
		560 889 352	**473 544 404**	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

39. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

Pooled Investment Funds (continued)

Strategy	Number of investee funds	Weighted average of net asset value of investee funds during 2016	Fair value of asset investment at 31/12/2016*	% of net assets attributable to holders of units**
		R	R	%
Investec Money Market Fund Class F Conservative maturity profile investing in money market instruments	1	211 652 065	229 069 490	0,79
Investec Stable Money Market Stable returns over the medium term, with a focus on conservative money market instruments	1	53 872 500	56 145 345	4,59
		265 524 565	**285 214 835**	

*The fair value of financial assets is included in available-for-sale assets in the statement of financial position.

**This represents the entity's percentage interest in the total net assets of the investee funds.

Fair value estimation

The fair value of publicly traded financial instruments held as available-for-sale securities is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the Scheme is the current bid price.

Owing to the short-term nature thereof the carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

The personal medical savings accounts of members contain a demand feature. Regulation 10 to the Medical Schemes Act 131 of 1998, as amended, determines that any credit balance on a member's personal medical savings account must be taken in cash on termination of membership except when the member enrols in another medical scheme with a similar feature. The carrying value of the personal medical savings accounts of members are therefore deemed to equal their fair value. The amounts were not discounted due to the demand features.

Money Market Portfolio

The mandate of the investment manager is for a managed South African Money Market portfolio that aims to provide moderate out-performance of the benchmark, whilst at the same time providing a high degree of capital security.

The performance of the portfolio is measured against the STEFI Composite Index with the objective of out-performing the benchmark by 0,25% per annum after deducting all fees and costs related to managing the portfolio.

The permitted assets of the portfolio are limited to:

SA "Money Market Instruments" as set out in Chapter 111 (12) of GN 2071 issued on 1 August 2003 in terms of the Collective Investment Control Act 45 of 2002 and investments in grade SA bonds, with a duration of shorter than two years.

Money Market Portfolio (continued)

	2017	2016
	R	R
Collective Investment Schemes		
Scheme	533 707 471	275 782 193
Money Market funds		
Personal medical savings account trust monies invested	480 789 128	443 013 902
	1 014 496 599	**718 796 096**

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to ensure that the Scheme has the ability to fund its day-to-day operations. The Scheme manages liquidity risk by monitoring forecast cash flows and ensuring that adequate free cash is available.

The Scheme has complied in all material respects with the requirements regarding the nature and categories of assets as prescribed by Section 35 and Regulation 30 of the Medical Schemes Act 131 of 1998, as amended.

Maturity analysis of financial assets and liabilities

The table analyse the financial assets and liabilities of the Scheme into relevant maturity groupings, based on the remaining period at financial position date to the contractual maturity date.

The table below summarises the Scheme's exposure to liquidity risk:

As at 31 December 2017	1 - 3 months R	4 - 12 months R	1 - 5 years R	Total R
FINANCIAL ASSETS				
Available-for-sale investments				
Scheme	348 682 473	5 000 720	1 297 263 431	1 650 946 623
Personal medical savings account trust monies invested	104 130 235	128 404 863	248 254 030	480 789 128
Trade and other receivables	-	70 262 212	-	70 262 212
Cash and cash equivalents				
Scheme	160 446 441	-	-	160 446 441
Personal medical savings account trust monies invested	160 147 569	-	-	160 147 569
Total financial assets	773 406 718	203 667 794	1 545 517 461	2 522 591 973
FINANCIAL LIABILITIES				
Personal medical savings account liability	-	660 990 469	-	660 990 469
Outstanding claims provision	155 649 426	-	-	155 649 426
Trade and other payables	120 719 227	-	-	120 719 227
Total financial liabilities	276 368 653	660 990 469	-	937 359 122
Net liquidity gap	**497 038 064**	**(457 322 674)**	**1 545 517 461**	**1 585 232 851**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2017

39. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

Liquidity risk (continued)

	1 - 3 months	4 - 12 months	1 - 5 years	Total
As at 31 December 2016	**R**	**R**	**R**	**R**
FINANCIAL ASSETS				
Available-for-sale investments				
Scheme	285 214 835	-	1 068 456 864	1 353 671 699
Personal medical savings account trust monies invested	443 013 902	-	-	443 013 902
Trade and other receivables	-	87 422 006	-	87 422 006
Cash and cash equivalents				
Scheme	130 581 559	-	-	130 581 559
Personal medical savings account trust monies invested	123 308 771	-	-	123 308 771
Total financial assets	982 119 068	87 422 006	1 068 456 864	2 137 997 938
FINANCIAL LIABILITIES				
Personal medical savings account liability	-	583 457 231	-	583 457 231
Outstanding claims provision	109 154 663	-	-	109 154 663
Trade and other payables	122 640 308	-	-	122 640 308
Total financial liabilities	231 794 971	583 457 231	-	815 252 202
Net liquidity gap	**750 324 097**	**(496 035 225)**	**1 068 456 864**	**1 322 745 736**

	2017	2016
	R	**R**
Cash and cash equivalents		
Cash and cash equivalents consist of the following:		
Current accounts	195 216 534	140 766 693
Scheme	35 068 965	17 457 922
Personal medical savings account trust monies invested	160 147 569	123 308 771
Deposits on call account	125 377 477	113 123 637
Scheme	125 377 477	113 123 637
Personal medical savings account trust monies invested	-	-
Total	**320 594 010**	**253 890 330**

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 2017 the Scheme did not consider there to be any significant concentration of legal risk that had not been provided for.

Capital adequacy risk

The Scheme's objectives for managing capital are to maintain the capital requirements as prescribed by the Medical Schemes Act 131 of 1998, as amended, and to safeguard the ability of the Scheme to continue as a going concern for the benefit of its stakeholders.

Regulation 29(2) of the Medical Schemes Act 131 of 1998, as amended, requires a minimum solvency ratio of accumulated funds expressed as a percentage of gross contributions of 25%.

The solvency ratio was 29.37% of gross contributions at 31 December 2017 and 26.88% at 31 December 2016.

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

	2017	2016
	R	**R**
Total members' funds per statement of financial position	1 612 170 602	1 333 117 471
Unrealised loss on revaluation of investment property in the statement of comprehensive income	500 000	500 000
Available-for-sale fair value reserve	(134 296 275)	(88 873 860)
Accumulated funds per Regulation 29	**1 478 374 327**	**1 244 743 611**
Gross contributions	**5 033 075 396**	**4 630 883 550**
Solvency margin (accumulated funds / gross contributions x 100)	**29.37%**	**26.88%**

Disclaimer: Whilst Bestmed has taken all reasonable care in compiling the Highlights of Bestmed's Financial Statements, we cannot accept liability for any errors or omissions contained herein. Please note that should a dispute arise, the audited Financial Statements in Bestmed's Annual Report 2017 which will be available on our website shall prevail. Please visit **www.bestmed.co.za** for the complete liability and responsibility disclaimer for the Bestmed Medical Scheme Annual Report as well as our terms and conditions.

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