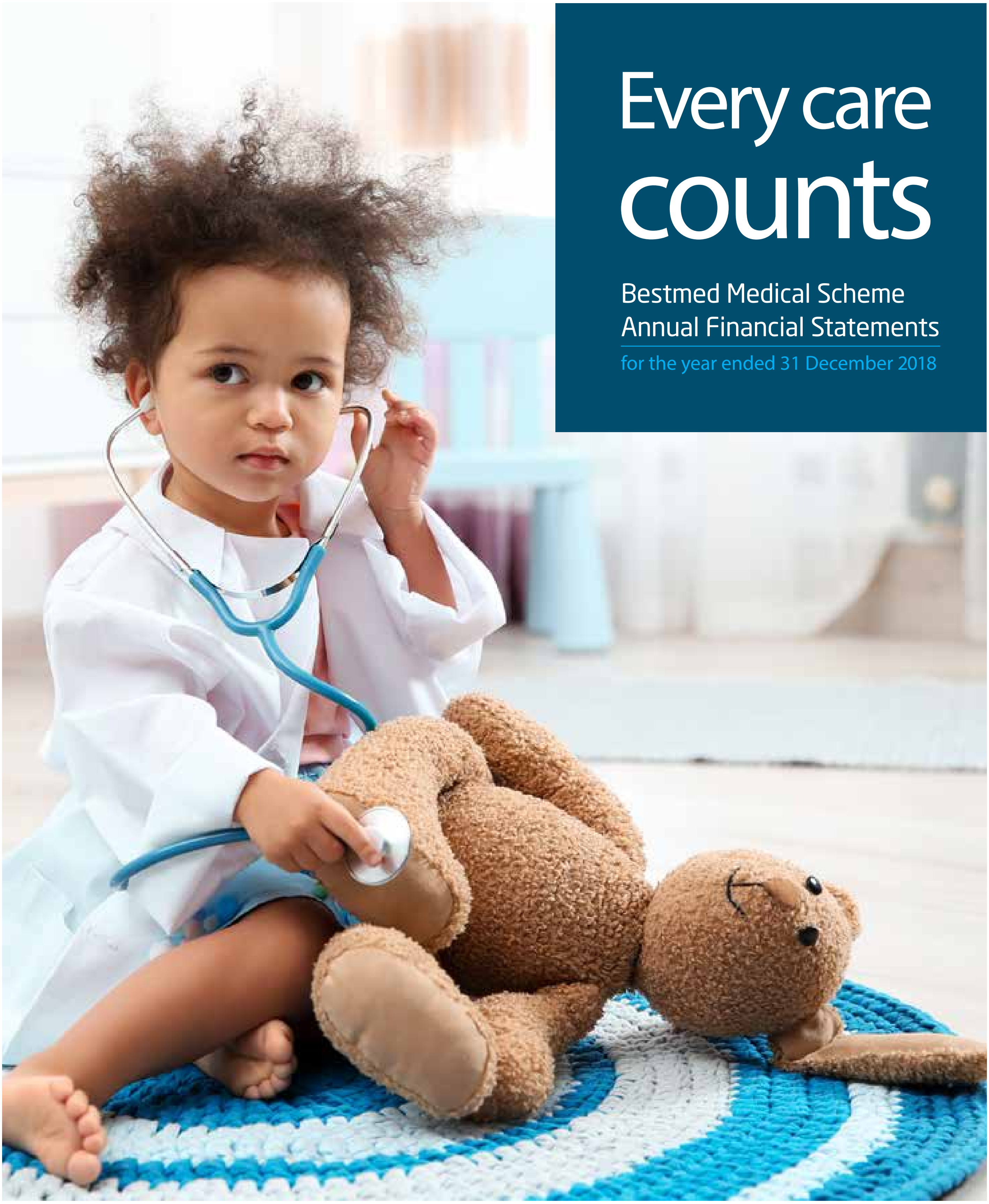
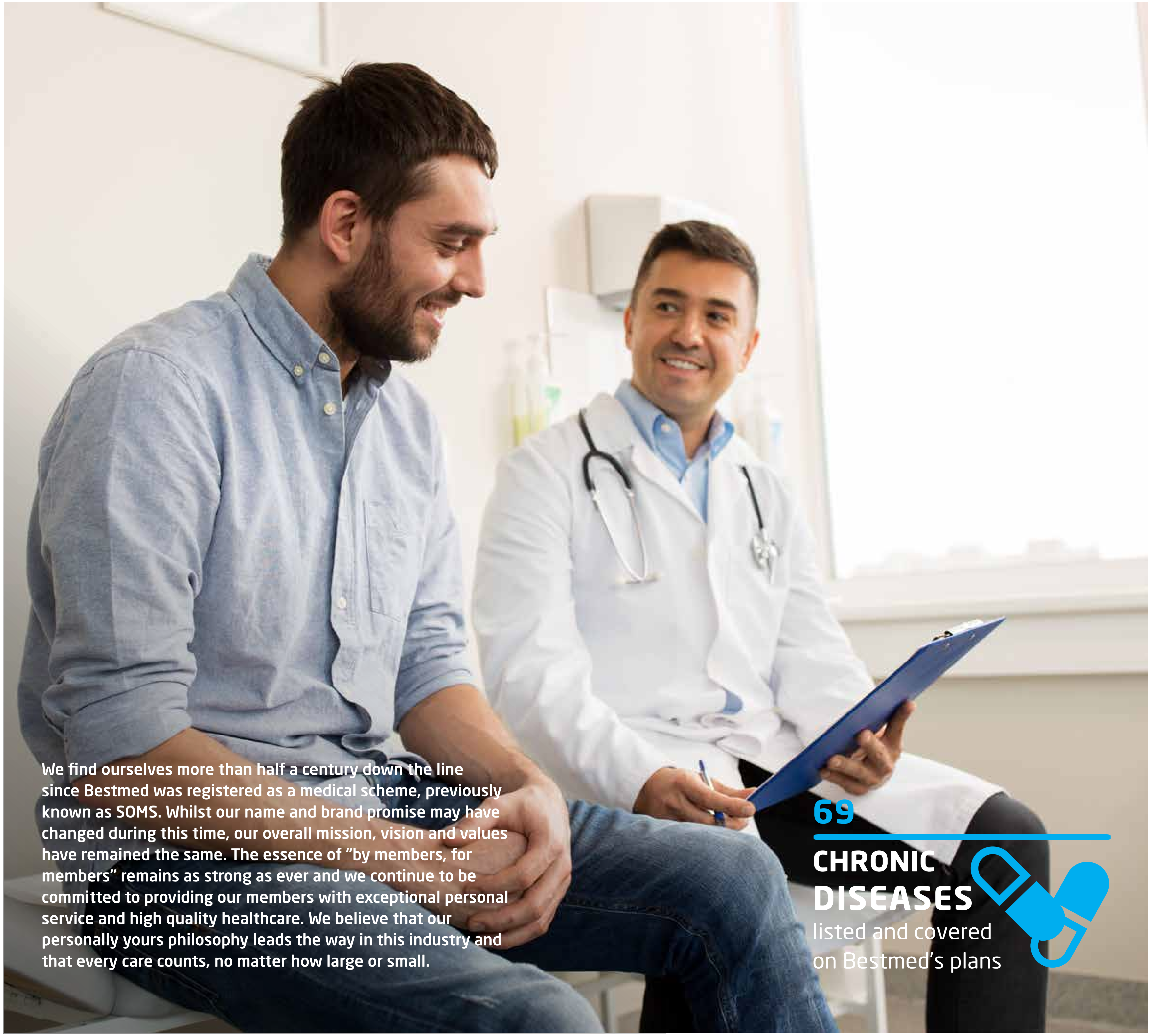


Every care counts

Bestmed Medical Scheme
Annual Financial Statements
for the year ended 31 December 2018

bestMed
personally yours


1.10
DEPENDANTS
PER MEMBER



We find ourselves more than half a century down the line since Bestmed was registered as a medical scheme, previously known as SOMS. Whilst our name and brand promise may have changed during this time, our overall mission, vision and values have remained the same. The essence of "by members, for members" remains as strong as ever and we continue to be committed to providing our members with exceptional personal service and high quality healthcare. We believe that our personally yours philosophy leads the way in this industry and that every care counts, no matter how large or small.

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CHRONIC DISEASES

listed and covered on Bestmed's plans

Contents

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 30 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 24 to 27.

The annual financial statements were approved by the Board of Trustees on 24 April 2019 and are signed on its behalf:

RF Camphor	**Prof PA Delport**	**P van Zyl**
Chairperson	Vice-Chairperson	Acting Chief Executive Officer

STATEMENT OF RESPONSIBILITY BY THE BOT

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	**Prof PA Delport**	**P van Zyl**
Chairperson	Vice-Chairperson	Acting Chief Executive Officer

Report of the Board of Trustees

REPORT OF THE BOT

The Board of Trustees hereby presents its report for the year ended 31 December 2018.

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.

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:

BENEFIT OPTION	PERCENTAGE
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. The Scheme awaits further directive from The Council for Medical Schemes ("CMS") pending their investigation as to the further treatment of these funds.

1.4 Risk Transfer Arrangements

The Scheme had the following risk transfer arrangements in 2018:

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 R3 522 802 (2017: R5 722 441).

Preferred Provider Negotiators provided members on the Beat3, Beat4 and all of the Pace and Pulse 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 R8 590 758 (2017: R9 678 903).

Bryte Insurance Company provided international transportation or emergency medical response to the Scheme's members. The Scheme contracted with Bryte Insurance at a rate of R2.47 per member. The total travel insurance paid to Bryte for 2018 was R2 767 484.

Refer to Note 16 to 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
E Marx	2016 - 2020
Prof JCW van Rooyen *Term ended 15 June 2018*	2016 - 2018
Rev JH Windell *Resigned 22 May 2018*	2015 - 2018
A Hartzenberg	2018 - 2022
L Heyl	2018 - 2022
MJ Joubert	2018 - 2022

2.1.2 APPOINTED	TERM OF OFFICE
LB Dlamini	2015 - 2020
GS du Plessis - CA(SA)	2018 - 2022
PM Kennedy	2015 - 2020
CM Mowatt - CA(SA)	*2015 - 2020*
S Stevens	*2018 - 2022*
T Legobye	2018 - 2022

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

Towers Watson (Pty) Ltd

Illovo Edge
1 Harries Road
Illovo
Johannesburg
2196

Postnet Suite 154
Private Bag x 1
Melrose Arch
2076

FSP number: 2545

2.5 Investment Managers

Coronation Asset Management (Pty) Ltd

Seventh Floor
Montclare Place
Cnr Campground and Main Road
Claremont
7708

PO Box 44684
Claremont
Cape Town
7735

FSP number: 548

Prudential Investment Managers South Africa (Pty) Ltd

5th Floor
Protea Place
40 Dreyer Street
Claremont
7708

PO Box 44813
Claremont
Cape Town
7735

FSP number: 45199

2.5 Investment Managers (continued)

Allan Gray Life Limited

1 Silo Square
V&A Waterfront
Cape Town
8001

PO Box 51605
V & A Waterfront
Cape Town
8002

FSP number: 6663

Investec Asset Management (Pty) Ltd

36 Hans Strijdom Avenue
Foreshore
Cape Town
8001

PO Box 1655
Cape Town
8000

FSP number: 587

Aluwani Capital Partners (Pty) Ltd

EPPF Office Park
24 Georgian Crescent East
Bryanston East
2152

Private Bag X 75
Bryanston
2021

FSP Number: 46196

ABAX Investment

Prescient House
Westlake Business Park
Otto Close
Westlake
7945

PO Box 31142
Tokai
7966

FSP Number: 856

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 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 The solvency ratio is calculated on the following basis:

	2018	2017
	R'000	R'000
Total members' funds per statement of financial position	1 771 305	1 612 171
Cumulative losses on remeasurement to fair value of financial instruments and property and equipment included in accumulated funds	-	500
Balance at beginning of year	500	500
Unrealised gain on revaluation of investment property in the statement of comprehensive income	(500)	-
Revaluation Reserves	(75 774)	(134 296)
Accumulated funds as per Regulation 29	1 695 531	1 478 374
Gross contributions	5 308 251	5 033 075
SOLVENCY RATIO	**31.94%**	**29.37%**

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 35 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 12 to the annual financial statements. The basis of calculation of the outstanding claims provision is discussed in Note 35 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 1 and 20(2) of the Medical Scheme's Act

"No medical scheme shall purchase any insurance policy in respect of any relevant health services other than to reinsure a liability in terms of section 26(1)."
This was highlighted by Circular 45 of 2018 that any such circumstances had to be rectified within 30 days of the date of the circular.

It was noted as part of Bestmed's International Travel policy with Bryte Insurance Company that some of the services under the policy does not relate to the business of a medical scheme as stated in section 1 and 20(2) or 26(1) of the Act.

An addendum to the policy was signed on 30 November 2018 in order to comply with circular 45 of 2018.

6.2 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.

6.3 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 system enhancement only came into effect from 1 August 2018. Commission is now only payable on full receipt of the contribution received.

With regard to the "various inconsistencies in the commission data relating to the brokers and brokerage names and accreditation numbers", this anomaly only occurs with non-accredited brokers linked to accredited brokerages. The Scheme pays the commission over to the accredited brokerage only. The responsibility is that of the individual broker to obtain their accreditation from the CMS.

6.4 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 six benefit options of the Scheme, namely Beat3, Pace2, Pace3, Pace4, Pulse1 and Pulse2 made a net healthcare deficit.

After accounting for other income Beat3, Pace2, Pace4, Pulse1 and Pulse2 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.

6.5 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 Sector Conduct Authority (FSCA). Registration number 44058. The FSCA required a guarantee of R1 million in terms of section 8(7) of the FSCA 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 and exemption was received on 10 April 2019 effective till 1 April 2020.

6.6 Non-compliance with Section 35(8)(a), (c) and (d) 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)(a), (c) and (d) of the Medical Schemes Act.

6.7 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.

6.8 Non-compliance with Regulation 6(1) and Scheme Rule 15.3 - Claims to be submitted within 4 (four) months

Regulation 6(1) of the Act states that: "A medical scheme must not in its rules or in any other manner in respect of any benefit to which a member or former member of such medical scheme or a dependent of such member is entitled, limit, exclude, retain or withhold, as the case may be, any payment to such member or supplier of service as a result of the late submission or late re-submission of an account or statement, before the end of the fourth month
a) from the last date of the service rendered as stated on the account, statement or claim; or
b) during which such account, statement or claim was returned for correction."

Furthermore Rule 15.3 of the Bestmed Rules states that: "In order to qualify for benefits, any claim must, unless otherwise arranged, be signed and certified as correct by a Member and must be submitted to the Scheme not later than the last day of the 4th (fourth) month following the month in which the relevant health service was rendered."

The Scheme continually evaluates and considers payments of stale claims. A stale claim policy is enforced, where the claims are investigated and decision made accordingly so as not to unfairly prejudice the members and service providers.

6.9 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 30 to the annual financial statements, and trustee remuneration disclosure in Note 29 to the annual financial statements.

8. CORPORATE GOVERNANCE

The Scheme through its Board is committed to the principles of fairness, ethical conduct, integrity, accountability and good governance in all its dealings with stakeholders. The Scheme aspires to fully comply to all aspects of good governance as espoused in the Medical Schemes Act and its regulations as amended.

Following Section 44 of the Medical Schemes Act inspection conducted by the CMS via a service provider appointed by the Regulator against Bestmed over the past financial years, the Scheme has received no further correspondence to date from the Council pursuant to its submission of its comments to the report.

During 2018, the Board relied on the committees listed below to oversee different aspects of the Scheme's operations. The Committees do not assume the functions of management, these remain the responsibility of the Acting Principal Officer and other members of senior management. Further information is provided below on each committee of the Board:

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 four 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
H Wolmarans - CA(SA)	Independent member
S Thomas - CA(SA)	Independent member

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 four times during the year and comprised the following members:

PM Kennedy	Trustee member - Chairperson
L Heyl	Trustee member Effective 15 June 2018
CM Mowatt - CA(SA)	Trustee member
S Stevens	Trustee member
G Nzalo - CA(SA)	Independent member

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
A Hartzenberg	Trustee member Effective 15 June 2018
M Joubert	Trustee member Effective 15 June 2018
PM Kennedy	Trustee member
E Marx	Trustee member Stepped down 20 August 2018
JH Windell	Trustee member Resigned 22 May 2018

REMUNERATION AND HUMAN RESOURCES 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 three times during the year and comprised the following members:

Prof PA Delport	Trustee member - Chairperson
RF Camphor	Trustee member
LB Dlamini	Trustee member
E Marx	Trustee member Effective 21 August 2018

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.

The Committee met once during the year and comprised the following members:

Dr D Kapp	Independent member
Adv JJ Labuschagne	Independent member - Chairperson
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 2018 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 addressed exactly the same subjects as the forensic investigation ordered by the Board of Trustees in 2015.

The Scheme still awaits the final report together with any directives from the CMS, after making a formal representation in February 2018. The final report will be attended to upon receipt.

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 29 to the annual financial statements.

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

B - Actual number of meetings attended.

Trustee member	Board meetings		Audit Committee		Risk Committee		Investment Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B	A	B
RF Camphor	8	8							3	3
Prof PA Delport	8	7							3	3
LB Dlamini	8	7							3	3
GS du Plessis	8	7	4	3			4	4		
A Hartzenberg	4	4					2	2		
L Heyl	4	3			2	2				
M Joubert	4	4					2	2		
PM Kennedy	8	8			4	3	4	4		
T Legobye	4	4								
E Marx	8	8					2	2	1	1
CM Mowatt	8	7	4	3	4	4	4	4		
S Stevens	8	7			4	3				
Prof JCW van Rooyen Term ended 15 June 2018	4	4								
Rev JH Windell Resigned 22 May 2018	3	3					2	2		

Independent members	Audit Committee		Risk Committee		Dispute Committee	
	A	B	A	B		
G Nzalo - CA(SA) Chairperson of Audit committee	4	4	4	3		
H Wolmarans - CA(SA)	4	4				
S Thomas - CA(SA)	4	4				
J Labuschagne					1	1
L Vorster					1	1
D Kapp					1	1

11. OPERATIONAL STATISTICS PER BENEFIT OPTION

2018	Beat1	Beat2	Beat3	Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
Members at 31 December	5 685	25 735	7 157	4 290	29 091	9 829	5 554	2 606	2 731	664	**93 342**
Average number of members for the accounting period	5 687	25 202	7 144	4 421	29 405	9 977	5 613	2 662	2 818	705	**93 635**
Dependants at 31 December	5 923	26 469	7 514	4 730	42 317	7 643	5 417	1 395	1 629	134	**103 171**
Average number of dependants for the accounting period	5 960	25 958	7 455	4 890	42 517	7 830	5 546	1 446	1 708	145	**103 454**
Average beneficiaries for the accounting period	11 646	51 160	14 599	9 311	71 922	17 807	11 159	4 108	4 526	850	**197 088**
Ratio of average dependants at 31 December	1,05	1,03	1,04	1,11	1,45	0,78	0,99	0,54	0,61	0,21	**1,10**
Average age of beneficiaries for the accounting period	35,49	29,97	36,63	44,44	33,58	53,59	52,65	62,78	44,90	77,73	**37,33**
Ratio of beneficiaries older than 65 years	8.62%	3.32%	12.05%	19.97%	8.00%	37.28%	35.57%	53.04%	23.58%	89.10%	**13.38%**
Risk contribution per average member per month	2 246	2 172	3 285	5 328	4 226	5 983	6 995	9 142	2 583	5 520	**3 986**
Risk contribution per average beneficiary per month	1 097	1 070	1 607	2 530	1 728	3 352	3 519	5 924	1 608	4 578	**1 894**
Healthcare expenditure per average member per month	1 897	1 714	3 017	4 635	3 522	5 842	6 724	9 577	2 520	5 980	**3 550**
Healthcare expenditure per average beneficiary per month	926	844	1 477	2 201	1 440	3 273	3 382	6 206	1 569	4 959	**1 687**
Relevant healthcare expenditure as a percentage of risk contributions	84.4%	78.9%	91.9%	87.0%	83.4%	97.7%	96.1%	104.8%	97.6%	108.3%	**89.1%**
Non-healthcare expenditure per average member per month	345	350	357	331	374	353	381	344	337	296	**358**
Non-healthcare expenditure per average beneficiary per month	168	172	174	157	153	198	192	223	210	245	**170**
Non-healthcare expenditure as a percentage of risk contributions	15.35%	16.11%	10.85%	6.21%	8.85%	5.90%	5.45%	3.77%	13.06%	5.35%	**8.98%**

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%**

OPERATIONAL STATISTICS FOR THE SCHEME

	2018	2017
Average accumulated funds per average member at 31 December	18 738	15 543
Average accumulated funds per average beneficiary at 31 December	8 895	7 367
Return on investments as a percentage of investments	6.10%	6.21%
Administration and other operative expenses as a percentage of gross contributions	6.05%	6.54%

Independent Auditor's report

31.94%
SOLVENCY RATIO
as at 31 December 2018

INDEPENDENT AUDITOR'S REPORT

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 30 to 95, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, the statement of changes in members' funds and reserves and the statement of cash flows 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 2018, 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 of R 165,676,037 at year-end as described in Note 12 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. The Audit Committee reviews the outstanding claims provision as part of their review of the financial statements which is 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 model ("BCL"). 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 to be 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.	We obtained an understanding from the Scheme's actuaries and management regarding the process to calculate the outstanding claims provision. The actuarial model applied by the Scheme is one that is generally applied within the medical scheme industry. We obtained the actual claims data from the member administration system covering the year ended 31 December 2018. For a sample of actual claims received by the Scheme in the 31 December 2018 financial year, we tested the accuracy of the service and process dates. No material inconsistencies were noted. We substantively tested a sample of claims against the relevant Scheme rules and assessed completeness of the claims data. The claims data that was included in the Scheme's actuarial model was agreed to the above actual claims data with no material inconsistencies noted. To assess the reasonableness of the Scheme actuaries' estimation process, we compared the actual claim results in the current year to the prior year provision. Based on our assessment, the estimation process was considered reasonable. 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. We obtained the actual run - off report up to end March 2019 from the Scheme's management. For a sample of claims from the report, we tested the occurrence and accuracy of the claims as well as the accuracy of the related service dates and we noted no material inconsistencies. We enquired from the Scheme's management whether there were delays in processing claims at year end that could impact the claims run off pattern subsequent to year end. Management confirmed that there were no such delays.

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 2018. The other information 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's 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 instance 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 33 of the financial statements.

Audit Tenure
As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that PricewaterhouseCoopers Inc. has been the auditor of Bestmed Medical Scheme for 50 years.

The engagement partner, Johannes Grové, has been responsible for Bestmed Medical Scheme's audit for 5 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: JJ Grové
Registered Auditor
Johannesburg
26 April 2019


2018 Annual
Financial
Statements
RESERVES
1 771 305 337

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

	Notes	2018	2017
		R	R
ASSETS			
Non-current assets		**1 510 164 279**	**1 336 416 948**
Property and equipment	2	24 598 586	30 984 754
Investment property	3	-	1 600 000
Intangible assets	4	9 791 025	6 568 764
Financial assets at fair value through profit or loss	5(a); 6	1 308 339 644	-
Financial assets at fair value through Other comprehensive income	5(b); 6	167 435 024	-
Available-for-sale investments	5(c); 6	-	1 297 263 431
Current assets		**1 361 352 162**	**1 225 328 542**
Financial assets at fair value through profit or loss		878 348 268	-
Scheme	5(a); 6	358 313 714	-
Personal medical savings account trust monies invested	5(a); 6	520 034 554	-
Financial assets at fair value through Other comprehensive income	5(b); 6	133 498	-
Available-for-sale investments		-	834 472 321
Scheme	5(c); 6	-	353 683 193
Personal medical savings account trust monies invested	5(c); 6	-	480 789 128
Trade and other receivables	7	265 762 863	70 262 212
Cash and cash equivalents		217 107 533	320 594 010
Scheme	9	16 775 115	160 446 441
Personal medical savings account trust monies invested	9	200 332 418	160 147 569
Total assets		**2 871 516 441**	**2 561 745 490**
FUNDS AND LIABILITIES			
Members' Funds		**1 771 305 337**	**1 612 170 602**
Accumulated funds		1 775 599 276	1 477 874 327
Revaluation reserves - Available-for-sale assets		-	134 296 275
Revaluation Reserve - Financial assets at fair value through Other comprehensive income		(4 293 939)	-
Non-current liabilities		**11 712 158**	**12 215 765**
Retirement benefit obligations	10	11 712 158	12 215 765
Current liabilities		**1 088 498 946**	**937 359 122**
Personal medical savings account trust liability	11	736 004 819	660 990 469
Outstanding claims provision	12	165 676 037	155 649 426
Trade and other payables	13	186 818 090	120 719 227
Total funds and Liabilities		**2 871 516 441**	**2 561 745 490**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018	2017
		R	R
RISK CONTRIBUTION INCOME	14	**4 479 138 426**	**4 256 038 032**
Relevant healthcare expenditure		**(3 989 323 832)**	**(3 712 106 868)**
Net claims incurred	15	(4 001 437 392)	(3 727 508 212)
Risk claims incurred	15	(3 903 152 564)	(3 628 769 610)
Third party claims recoveries	15	8 603 947	7 283 907
Accredited managed healthcare services	15	(106 888 775)	(106 022 510)
Net income/(expense) on risk transfer arrangements		12 113 560	15 401 344
Risk transfer arrangement premiums paid	16	(86 467 640)	(84 190 590)
Recoveries from risk transfer arrangements	16	98 581 199	99 591 934
Gross healthcare result		**489 814 594**	**543 931 164**
Broker service fees and other distribution fees	17	(74 831 727)	(70 458 474)
Administration and other operative expenses	18	(321 011 058)	(328 981 752)
Net impairment losses on healthcare receivables	19	(6 392 567)	(9 033 687)
Net healthcare result		**87 579 243**	**135 457 250**
Other income		**158 060 867**	**154 001 238**
Investment income		156 759 887	152 315 255
Scheme	20	112 889 958	110 684 964
Personal medical savings account trust monies invested	20;23	43 869 929	41 630 290
Sundry income	21	1 300 980	1 685 984
Other expenditure		**(57 948 920)**	**(55 827 772)**
Interest paid on personal medical savings trust accounts	22	(43 869 929)	(41 630 290)
Asset management fees	23	(5 903 824)	(6 678 621)
Own facility net expenditure	24	(8 061 316)	(7 497 681)
Other losses	25	(113 852)	(21 180)
NET SURPLUS FOR THE YEAR		**187 691 190**	**233 630 717**
Other comprehensive income		**(28 556 455)**	**45 422 414**
Fair value adjustment on financial assets through other comprehensive income		(28 556 455)	-
Realised gains on financial assets at fair value through other comprehensive income	20	(23 317 540)	-
Fair value adjustment on available-for-sale investments		-	57 091 454
Reclassification adjustment on realised gains / (loss)	20	23 317 540	(11 669 040)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**159 134 735**	**279 053 131**

STATEMENT OF CHANGES IN MEMBERS' FUNDS AND RESERVES FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Accumulated Funds	Available-for-sale Revaluation Reserve	Revaluation Reserve - OCI	Total members' funds
		R	R	R	R
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	20	-	(11 669 040)	-	(11 669 040)
Balance as at 31 December 2017		**1 477 874 327**	**134 296 275**	-	**1 612 170 602**
Change in accounting policy	6	86 716 219	(134 296 275)	47 580 056	-
Net surplus for the year		187 691 190	-	-	187 691 190
Other comprehensive income		23 317 540	-	(51 873 995)	(28 556 455)
Fair value adjustment on financial assets through other comprehensive income		-	-	(28 556 455)	-
Realised gains on financial assets at fair value through other comprehensive income	20	23 317 540	-	(23 317 540)	-
Balance as at 31 December 2018		**1 775 599 276**	-	**(4 293 939)**	**1 771 305 337**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018	2017
		R	R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash Receipts from members - Contributions	28	4 453 880 383	4 268 081 932
Cash Receipts from members and providers	28	(7 656 434)	(6 337 448)
Cash Receipts from members and providers - Other loans and receivables	28	2 721 258	2 419 656
Other loans and receivables	28	(171 700 000)	-
Cash paid to providers and employees - claims	28	(3 920 854 355)	(3 679 401 543)
Cash paid to providers and employees - non healthcare expenditure	28	(386 135 581)	(387 532 626)
Increase in personal savings account liabilities		75 014 350	77 533 239
Cash generated from operations		45 269 621	274 763 210
Interest paid		(43 869 929)	(41 630 290)
Interest paid on members' personal medical savings account trust monies	22	(43 869 929)	(41 630 290)
Net cash flows from operating activities		**1 399 692**	**233 132 920**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of investments		(207 937 256)	(240 183 469)
Increase in personal medical savings trust financial assets		(39 245 425)	(37 775 226)
Purchase of property and equipment	2	(8 693 774)	(25 341 285)
Proceeds from disposal of property and equipment	2;21;25	632 363	982 600
Proceeds from disposal of investment property	3;25	1 500 000	-
Increase in intangible assets	4	(4 007 506)	(4 758 075)
Interest income		136 596 233	123 202 195
Scheme	20	92 726 304	81 571 905
Interest received on personal medical savings account trust monies invested	22;23	43 869 929	41 630 290
Dividend income	20	16 269 198	17 444 020
Net cash flows utilised in investing activities		**(104 886 168)**	**(166 429 240)**
Net increase in cash and cash equivalents		(103 486 476)	66 703 679
Cash and cash equivalents at beginning of year	9	320 594 010	253 890 330
CASH AND CASH EQUIVALENTS AT END OF YEAR	9	**217 107 533**	**320 594 010**
CASH AND CASH EQUIVALENTS		**217 107 533**	**320 594 010**
Scheme		16 775 115	160 446 441
Personal medical savings account trust monies invested		200 332 418	160 147 569

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2018

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 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 31.

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

- Financial assets at fair value through profit & loss;
- Financial assets at fair value through Other comprehensive income;
- 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 2018 year-end

Number	Effective date	Executive summary	Impact
Amendments to IFRS 2 – 'Share-based payments'	Annual periods beginning on or after 1 January 2018	This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.	No material impact as the Scheme has no debt
"Amendment to IFRS 4, 'Insurance contracts' Regarding the implementation of IFRS 9, 'Financial instruments'"	Annual periods beginning on or after 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; and 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. "	Material to Scheme as the Scheme has financial instruments

International Financial Reporting Standards and amendments effective for the first time for 31 December 2018 year-end (continued)

Number	Effective date	Executive summary	Impact
IFRS 9, 'Financial instruments (2009 & 2010)' • Financial liabilities • Derecognition of financial instruments • Financial assets • General hedge accounting	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.	Material to Scheme as the Scheme has financial instruments
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.	Material to Scheme
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.	No material impact on the Scheme
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.	No material impact on the Scheme
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 chaanged use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.	No material impact as the Scheme has disposed its investment property during 2018

1. ACCOUNTING POLICIES (CONTINUED)

International Financial Reporting Standards, interpretations and amendments issued but not effective for 31 December 2018 year-end

Number	Effective date	Executive summary	Impact
Amendment to IFRS 9 - 'Financial instruments', on - prepayment features with negative compensation and - modification of financial liabilities.	1 January 2019	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
Amendment to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material.	1 January 2019	The narrow-scope amendment covers two issues: • IFRS 1,' First-time adoption of IFRS', regarding the deletion of short term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10. • IAS 28,'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value. IAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). The Board clarified that this election should be made separately for each associate or joint venture at initial recognition.	The amendment does not have an impact on the Scheme
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

International Financial Reporting Standards, interpretations and amendments issued but not effective for 31 December 2018 year-end (continued)

Number	Effective date	Executive summary	Impact
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

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.

1. ACCOUNTING POLICIES (CONTINUED)

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: financial assets, loans and receivables and financial liabilities measured at amortised cost. The Scheme has grouped its financial instruments into the following classes:

- Financial assets;
- Loans and receivables;
- Trade and other receivables;
- Cash and cash equivalents;
- Trade and other payables; and
- Members' personal medical savings accounts.

1.6 FINANCIAL ASSETS: INITIAL AND SUBSEQUENT MEASUREMENT - (EFFECTIVE 01 JANUARY 2018)

The Scheme has adopted IFRS 9 from effective date 01 January 2018. Adoption of IFRS results in a change in accounting policy and disclosure of financial assets:

Classification

The scheme classifies its financial assets in the following categories: at fair value through profit or loss, at fair value through other comprehensive income and amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss (FVPL)

Debt investments that do not qualify for measurement at either amortised cost or fair value through other comprehensive income.

Equity investments that are held for trading and equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(b) Financial assets at fair value through other comprehensive income (FVTOCI)

Equity instruments which are not held for trading, and which the scheme has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the scheme considers this classification to be more relevant.

Debt instruments where the contractual cash flows are solely principal and interest and the objective of the scheme's business model is achieved both by collecting contractual cash flows and selling financial asset or Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI).

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

(c) Amortised cost (AC)

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

(d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as current assets. The scheme's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The scheme holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the scheme commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the scheme has transferred substantially all the risks and rewards of ownership.

At initial recognition, the scheme measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement

Despite the aforegoing, the Scheme may make the following irrevocable election/designation at initial recognition of a financial asset:

The Scheme may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and

The Scheme may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Derecognition

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

(a) Debt instruments

Subsequent measurement of debt instruments depends on the scheme's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the scheme classifies its debt instruments, i.e AC, FVTOCI and FVTPL.

1. ACCOUNTING POLICIES (CONTINUED)

(b) Equity instruments

The scheme subsequently measures all equity investments at fair value. Where the scheme's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the scheme's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment of financial assets

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. In relation to the impairment of financial assets an expected credit loss model is required. The expected credit loss model requires the Scheme to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The Scheme recognises a loss allowance for expected credit losses on:

- Debt investments measured subsequently at amortised cost or at FVTOCI;
- Lease receivables;
- Loans and receivables;
- Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

The Scheme measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit impaired financial asset), the Scheme is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL.

IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

1.7 FINANCIAL ASSETS: INITIAL AND SUBSEQUENT MEASUREMENT - (PRIOR YEARS)

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.

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).

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.

1.8 TRADE AND OTHER RECEIVABLES

Insurance contracts - IFRS 4:

A medical benefit plan or contract entered into with a member is an insurance contract as defined by IFRS 4, to the extent that:

- It transfers a risk other than a financial risk to the scheme (for example, the risk that the member may seek medical treatment);
- There is no certainty as to whether the member will seek medical treatment; when the member will seek medical treatment; or how much will be payable by the medical scheme if the member seeks medical treatment; and
- The member (i.e. policyholder) is adversely affected by the insured event (i.e. it costs the member money to seek medical treatment in the event of illness) and the medical scheme agrees to compensate the member for these costs.

The scheme holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Receivables arising from insurance contracts are reviewed for impairment as part of the impairment review of loans and receivables.

Impairment:

1. ACCOUNTING POLICIES (CONTINUED)

From 1 January 2018, the Scheme assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, of which the majority represents insurance receivables as disclosed in note 7 the scheme does not apply the impairment guidelines as outlined in IFRS 9, as insurance receivables are not included in the scope of IFRS 9. The accounting policy for impairment as indicated under Note 1.11, is still applied.

1.9 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.

1.10 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.

1.11 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.

Financial assets carried at fair value

The Scheme assesses at each statement of financial position date whether there is objective evidence that an Financial assets financial asset is impaired. For debt securities, the Scheme uses the criteria referred to above. In the case of equity investments classified as Financial assets, 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 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 Financial assets 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.

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.

1.12 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.

1.13 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 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.

1.14 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.

1. ACCOUNTING POLICIES (CONTINUED)

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 Financial assets 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.

1.15 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.

1.16 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 15 and 18.

1.17 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.

1.18 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; and
- Discount received from service providers.
- 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.

1.19 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.

1.20 BROKER SERVICE FEES AND OTHER DISTRIBUTION FEES

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

1.21 ADMINISTRATION AND OTHER OPERATIVE EXPENSES

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

1.22 INVESTMENT INCOME

Investment income comprises of: 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.

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

1.23 OWN FACILITIES - MEDICAL CENTRES (PRIOR 1 JANUARY 2018)

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.

1.24 REVENUE FROM CONTRACTS WITH CUSTOMERS : OWN FACILITIES - MEDICAL CENTRES

The scheme adopted IFRS 15, revenue from contracts with customers, from January 2018 which resulted in a change in accounting policy but no adjustment to the amount recognised in the financial statements.

Revenue from contracts with customers comprise of own facility income based on a percentage of the service providers healthcare proceeds on a monthly basis. Revenue is recognised as the service is incurred and not over a period of time.

1.25 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

1. ACCOUNTING POLICIES (CONTINUED)

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 R4.9 million at financial year end.

1.26 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.

1.27 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.

1.28 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.

1.29 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 improvements	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 2018							
Cost							
At the beginning of the year	10 132 449	16 951 376	29 804 151	591 823	-	3 174 771	**60 654 570**
Additions	272 973	550 584	7 258 160	-	-	612 057	**8 693 774**
Disposals	(505 974)	(6 468 295)	(33 872)	-	-		**(7 008 141)**
At the end of the year	**9 899 448**	**11 033 665**	**37 028 439**	**591 823**	**-**	**3 786 828**	**62 340 203**
Accumulated depreciation							
At the beginning of the year	4 549 500	11 873 335	11 855 559	468 309	-	923 113	**29 669 816**
Disposals	(297 529)	(6 097 210)	(15 615)	-	-		**(6 410 354)**
Depreciation charges	989 232	2 214 944	9 952 859	88 810	-	1 236 310	**14 482 154**
At the end of the year	5 241 203	7 991 070	21 792 803	557 118	-	2 159 422	**37 741 617**
Carrying amount at the end of the year	**4 658 245**	**3 042 595**	**15 235 637**	**34 704**	**-**	**1 627 406**	**24 598 586**

	Furniture	Leasehold improvements	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**

Depreciation expenditure to the value of R327 457 (2017: R 313 426) 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).

3. INVESTMENT PROPERTY

	2018	2017
	R	R
Carrying value at the beginning of the year	1 600 000	1 600 000
Revaluation adjustment	(100 000)	-
Disposals	(1 500 000)	
Carrying value at the end of the year	-	1 600 000

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

The investment property was carried at cost in the year of purchase and was 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.

The property was disposed in September 2018. Direct operating expenses arising from this investment property amounted to R57 018 (2017: R99 749).

4. INTANGIBLE ASSETS

	2018	2017
	R	R
Year ended 31 December 2018		
Cost		
At the beginning of the year	6 568 764	2 279 886
Additions	4 476 704	4 758 075
At the end of the year	11 045 467	7 037 961
Accumulated amortisation		
At the beginning of the year	(469 197)	-
Amortisation for the year	(785 245)	(469 197)
At the end of the year	(1 254 442)	(469 197)
Carrying value at the end of the year	9 791 025	6 568 764

The intangible asset consists of development costs incurred 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. FINANCIAL ASSETS

	2018	2017
	R	R
(a) Financial assets at fair value through profit or loss represent investments in:		
Scheme:		
Money Market Instruments	1 943 345	-
Listed Bonds	73 191 693	-
Linked Insurance Fund Policies	717 201 480	-
Collective Investment Schemes	874 316 839	-
	1 666 653 357	-
The personal medical savings investments represent investments in:		
Money Market Instruments	251 081 060	-
Linked Insurance Fund Policies	268 953 493	-
	520 034 553	-
(b) Financial assets at fair value through other comprehensive income represent investments in:		
- Listed Equity	137 893 153	-
- SA Listed Properties	29 675 370	-
	167 568 522	-
(c) Available-for-sale investments represent investments in:		
Segregated portfolio	-	663 587 430
- Listed Equity	-	275 626 109
- Money Market Instruments	-	154 882 842
- Listed Bonds	-	150 933 557
- SA Listed Properties	-	76 331 136
- Exchange Traded Funds	-	5 813 787
- International Fixed Interest Instruments	-	-
Linked Insurance Fund Policies	-	453 651 722
Collective Investment Schemes	-	533 707 471
	-	**1 650 946 623**

Bestmed had to implement IFRS 9 effective 1 January 2018. The adoption of IFRS 9 imply that the Scheme has changed its accounting policy with regard to the disclosure of financial instruments previously classified as Available-for-sale Investments. Refer to Note 6 for the Change in Accounting Policy disclosure.

5. FINANCIAL ASSETS (CONTINUED)

	2018	2017
	R	R
(c) Available-for-sale investments represent investments in: (continued)		
The personal medical savings investments represent investments in:		
Segregated portfolio	-	232 535 098
- Money Market Instruments	-	229 199 800
- Listed Bonds	-	3 335 298
Linked Insurance Fund Policies	-	248 254 030
	-	480 789 128

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 36 for Financial Risk Management disclosures.

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 8.2% (2017: 8.6%) and the investments had an average maturity of 346 (2017: 347) days.

Bestmed had to implement IFRS 9 effective 1 January 2018. The adoption of IFRS 9 imply that the Scheme has changed its accounting policy with regard to the disclosure of financial instruments previously classified as Available-for-sale Investments. Refer to Note 6 for the Change in Accounting Policy disclosure.

6. CHANGES IN ACCOUNTING POLICY

IFRS 9 Financial Instruments (IFRS 9)

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 1.6. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

Classification and measurement of financial instruments:

The scheme's management has assessed which business models apply to the financial assets held by the scheme and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets - 1 January 2018	Note	FVPL	FVOCI
		R	R
Closing balance 1 January 2018 - IAS 39			
Reclassify investments from available-for-sale to FVPL	(a)	1 299 085 937	
Reclassify equity from available-for-sale to FVOCI	(b)		351 860 685

	Note	Effect on AFS* reserve	FVOCI	Effect on accumulated funds
		R	R	R
Opening balance 1 January 2018 - IAS 39		134 296 275	-	1 477 874 327
Reclassify investments from available-for-sale to FVPL	(a)	(86 716 219)	-	86 716 219
Reclassify equity from available-for-sale to FVOCI	(b)	(47 580 056)	47 580 056	-
Opening balance 1 January 2018 - IFRS 9		**-**	**47 580 056**	**1 564 590 546**

* Available for sale

(a) Certain investments in bonds, collective investments schemes, linked insurance fund policy and money market instruments were reclassified from available-for-sale to financial assets at FVPL (R1 299 085 937 as at 1 January 2018). They do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

(b) The scheme elected to present in OCI changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of R351 860 685 were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value gains of R54 228 349 were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 January 2018.

The table below represent the changes:

Description	Measurement Categories		Carrying Amount		
	Prior Years (IAS9)	New (IFRS 9)	Original	New	Difference
Listed Equity	AFS	FVOCI	137 893 153	137 893 153	-
SA Listed Properties	AFS	FVOCI	29 675 370	29 675 370	-
Money Market Instruments	AFS	FVPL	1 943 345	1 943 345	-
Listed Bonds	AFS	FVPL	73 191 693	73 191 693	-
Linked Insurance Fund Policies	AFS	FVPL	717 201 480	717 201 480	-
Collective Investment Schemes	AFS	FVPL	874 316 839	874 316 839	-

7. TRADE AND OTHER RECEIVABLES

	2018	2017
	R	R
Insurance receivables		
Contributions outstanding	72 715 159	47 457 116
Recoveries from providers	1 832 224	1 082 395
Recoveries from members for co-payments	8 732 085	4 445 481
Personal medical savings account advances (Note 11)	8 842 553	6 261 204
	92 122 020	59 246 196
Less: Provision for impairment	(12 974 491)	(7 693 965)
Total receivables arising from insurance contracts	79 147 529	51 552 230

7. TRADE AND OTHER RECEIVABLES (CONTINUED)

	2018	2017
	R	R
Other loans and receivables		
Prepaid expenses and deposits	8 439 742	12 900 964
Accrued interest	4 667 267	2 458 689
Sundry accounts receivable	1 632 288	2 100 902
Investment in transit	171 700 000	-
	186 439 297	17 460 555
Recovery under risk transfer arrangements outstanding claims provisions	176 037	1 249 426
Total trade and other receivables	265 762 863	70 262 212

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 36 for impairment disclosures.

Cash-in-transit to an amount of R171.7m is as a result of a transfer of funds to the investment account held at Investec on the 31 December 2018. Due to the investors' cut-off times and the festive season, the amount only reflected on the Investec statement on the 1st working day of 2019.

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 R4.9M (2017: R54.8 M)

9. CASH AND CASH EQUIVALENTS

	2018	2017
	R	R
Scheme		
Call accounts*	3 605 768	125 377 477
Current accounts	13 169 347	35 068 965
	16 775 115	160 446 441

The weighted average effective interest rate on short-term cash deposits was 7.07% (2017: 6.85%) and had an average maturity of 29.42 days (2017: 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 7 for Cash-in-transit of R171.7m.

Refer to Note 20 for the total interest earned on the bank accounts and fixed deposits which are included in investment income in the statement of comprehensive income.

Investment of personal medical savings account trust monies managed by the Scheme on behalf of its members		
Current accounts	200 332 418	160 147 569
	200 332 418	160 147 569

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.

10. 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 (2017: 20) pensioners. The total present value of the liability based on a projected-unit-credit basis as at 31 December 2018 is R11 712 158 (2017: R12 215 765). The liability of all active employees was settled.

		2018	2017
		R	R
The independent actuarial assumptions and valuation at year-end were:			
Number of pensioner members		20	20
Future long-term medical inflation		8.8% p.a.	9.1% p.a.
Expected yield on assets		9,6%	9,2%
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		14,70	15,77
Female		18,80	20,45

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
Beat2 Network	All	1 633	1 268	687
Pace1	All	3 609	2 534	911
Pace2	All	5 111	5 012	1 127
Pace4	All	7 330	7 330	1 717

10. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	2018	2017
	R	R
The value recognised in the statement of financial position are:		
Liability at 1 January	12 215 765	13 333 401
Settlements	(948 414)	(903 233)
Interest cost	1 081 083	1 210 888
Actuarial gain	(636 276)	(1 425 291)
Liability at year-end in the statement of financial position	11 712 158	12 215 765

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 9.2% per annum was used for the year ended 31 December 2018 (2017: 9.4%).

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 R636 276 (2017: R1 425 291) is reported over the past year in the statement of comprehensive income. This gain is due to the following factors:

	2018	2017
	R	R
• Demographic experience (including option changes) and that assumed in the previous valuation gave rise to an actuarial loss.	(268 014)	827 691
• Changes made to assumptions, the increase in the discount rate from 9.2% to 9.6% (2017: 9.4% to 9.2%) and a decrease in the medical cost inflation assumption from 9.1% to 8.8% (2017: 9.7% to 9.1%)	918 150	656 400
• Actual contribution increases on 1 January 2019 were 6.9% as opposed to the assumption of 7.4% used (2017: 8.4% vs 7.9%).	51 831	(58 800)
• Higher than expected disbursements paid during the year	(65 691)	-
	636 276	1 425 291

History on year-end balances	Balance on statement of financial position	Actuarial (loss)/gain in statement of comprehensive income
At 31 December	R	R
2018	11 712 158	636 276
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)

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:

	Base	Inflation plus 1%	Inflation plus 0.5%	Inflation minus 1%	Inflation minus 0.5%
	R	R	R	R	R
2018					
Liability at 1 January 2018	12 215 765	12 215 765	12 215 765	12 215 765	12 215 765
Settlements	(948 414)	(948 414)	(948 414)	(948 414)	(948 414)
Interest cost	1 081 083	1 081 083	1 081 083	1 081 083	1 081 083
Actuarial (gain)/loss	(636 276)	380 463	(144 276)	(1 531 689)	(1 097 997)
Liability as at 31 December 2018	**11 712 158**	**12 728 898**	**12 204 158**	**10 816 745**	**11 250 438**
2019					
Liability at 1 January 2019	11 712 158	12 728 898	12 204 158	10 816 745	11 250 438
Settlements	(993 321)	(993 321)	(993 321)	(993 321)	(993 321)
Interest cost	1 076 688	1 174 295	1 123 920	990 728	1 032 363
Liability as at 31 December 2019	**11 795 524**	**12 909 872**	**12 334 757**	**10 814 153**	**11 289 480**

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.

11. PERSONAL MEDICAL SAVINGS ACCOUNT TRUST LIABILITY

	2018	2017
	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	660 990 469	583 457 231
Less		
Advances on personal medical savings accounts (Note 7)	(6 261 204)	(2 936 324)
Balance on personal medical savings account liability at the beginning of the year	654 729 265	580 520 908
Add		
Personal medical savings account contributions received or receivable (Note 14)	829 112 776	777 037 364
Personal medical savings account balances received from other Schemes	943 133	581 827
Interest on personal medical savings account trust funds invested paid to members (Note 22)	44 417 642	42 131 450
Advances on personal medical savings accounts written off or in debt recovery process	2 927 031	5 599 226
Less		
Personal medical savings claims paid on behalf of members (Note 15)	(780 045 179)	(731 712 054)
Refunds on death or resignations	(24 374 690)	(18 928 296)
Bank charges and management fees (Note 23)	(547 714)	(501 160)
Add		
Advances on personal medical savings accounts (Note 7)	8 842 553	6 261 204
Balances due to members on personal medical savings accounts held in trust at end of year	736 004 819	660 990 469

11. PERSONAL MEDICAL SAVINGS ACCOUNT TRUST LIABILITY (CONTINUED)

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 Financial assets 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.

12. OUTSTANDING CLAIMS PROVISION

	Covered by risk transfer arrangements	Not covered by risk transfer arrangements	Total
	R	R	R
2018			
Provision for outstanding claims incurred but not reported	176 037	165 500 000	165 676 037
Analysis of movements in outstanding claims			
Balance at the beginning of the year	1 249 426	154 400 000	155 649 426
Payments in respect of the prior year	(5 347 534)	(160 937 029)	(166 284 563)
(Under)/over provision in the prior year	(4 098 108)	(6 537 029)	(10 635 137)
Adjustment for the current year	4 274 145	172 037 029	176 311 174
Balance at end of the year	**176 037**	**165 500 000**	**165 676 037**
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**

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 2018 and 2017 benefit years.

Sensitivity analysis

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

	Base	Inflation + 1%	% Change	Inflation -1%	% Change
	R	R	%	R	%
2018					
Liability as at 31 December 2018	165 676 037	167 332 798	1,00%	164 019 277	(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.

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.

12. OUTSTANDING CLAIMS PROVISION (CONTINUED)

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

	Claims for 2018 services paid from Jan 2019 to Mar 2019	2018 Claims estimated at that time to be paid after Mar 2019	Outstanding claims provision	% Change in outstanding claims provision
	R	R	R	%
2018 Scenario				
Base scenario	136 942 581	28 566 592	165 509 173	
10% increase	136 942 581	31 423 251	168 365 832	1.73%
10% decrease	136 942 581	25 709 933	162 652 514	(1.73%)

	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	%
2017 Scenario				
Base scenario	139 233 096	20 367 712	159 600 808	
10% increase	139 233 096	22 404 484	161 637 579	1.28%
10% decrease	139 233 096	18 330 941	157 564 037	(-1.28%)

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.

13. TRADE AND OTHER PAYABLES

	2018	2017
	R	R
Insurance liabilities		
Contributions received in advance	16 039 058	11 822 527
Unclaimed payments	13 459 584	13 772 718
Reported claims not yet paid	96 828 049	43 541 132
	126 326 690	69 136 377
Financial liabilities		
Other payables and accrued expenses	38 579 034	39 452 510
Trade creditors payable	13 299 737	4 411 535
Total trade and other payables	51 878 770	43 864 046
Provisions		
Leave provision at the beginning of the year	7 718 804	6 700 513
Movement for the year	893 826	1 018 291
Leave provision at the end of the year	8 612 630	7 718 804
	186 818 090	120 719 227
Reported claims not yet paid		
Balance at beginning of year	43 541 132	36 437 651
Net movement for the year	53 286 917	7 103 481
Balance at end of year	96 828 049	43 541 132

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

14. RISK CONTRIBUTION INCOME

	2018	2017
	R	R
Gross contributions	5 308 251 202	5 033 075 396
Less: Personal medical savings account contributions (Note 11)	(829 112 776)	(777 037 364)
	4 479 138 426	4 256 038 032

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.

15. NET CLAIMS INCURRED

	2018	2017
	R	R
Claims incurred excluding claims incurred in respect of risk transfer arrangements		
Current-year claims as per Registered Rules	4 423 455 926	4 114 795 983
Movement in outstanding claims provision	172 037 029	154 875 498
Under provision in prior year	6 537 029	475 498
Adjustment for current year	165 500 000	154 400 000
Claims paid from personal medical savings accounts	(780 045 179)	(731 712 054)
	3 815 447 776	3 537 959 426
Claims incurred in respect of risk transfer arrangements		
Current-year claims incurred in respect of risk transfer arrangements (Note 16)	98 581 199	99 591 934
Recovery under risk transfer arrangements	(4 274 145)	(5 061 530)
Movement in outstanding claims provision	4 274 145	5 061 530
Under provision in prior year	4 098 108	3 812 104
Adjustment for current year	176 037	1 249 426
	98 581 199	99 591 934
Hospital discount received	(10 876 411)	(8 781 751)
Third party claims recoveries	(8 603 947)	(7 283 907)
Accredited managed healthcare services	106 888 775	106 022 510
Hospital benefit management services	27 027 983	29 695 063
Pharmacy benefit management services	61 730 431	58 168 680
Managed care network management services & risk management	9 448 133	10 155 387
Active disease risk management	8 682 228	8 003 379
Net claims incurred per the statement of comprehensive income	**4 001 437 392**	**3 727 508 212**

16. RISK TRANSFER ARRANGEMENTS

	Bryte Insurance	ER24	Preferred Provider Negotiators	Total
	R	R	R	R
2018				
Capitation fees paid	2 767 484	25 340 233	58 359 922	86 467 640
Recoveries received	(2 767 484)	(28 863 035)	(66 950 680)	(98 581 199)
Net (income)/expense on risk transfer arrangement	-	(3 522 802)	(8 590 758)	(12 113 560)

	ER24	Preferred Provider Negotiators	Total
	R	R	R
2017			
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)

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 15).

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 ER24, Bryte Insurance Company and the Preferred Provider Negotiators per beneficiary.

- Optical services
- Emergency transport services
- International emergency transport services

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

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 per member with ER24. The contract was cancelled on 31 December 2017 and the total travel insurance paid to ER24 was R0 (2017: R2.7 M).

Bryte Insurance Company

The Scheme took out insurance for International Travel at a rate of R2.47 (2017: R0) per member with Bryte Insurance Company. The total travel insurance paid to Bryte for 2018 was R2.8M (2017: 0).

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.

17. BROKER SERVICE FEES AND OTHER DISTRIBUTION FEES

	2018	2017
	R	R
Brokers' fees	74 831 727	70 458 474
	74 831 727	70 458 474

18. ADMINISTRATION EXPENSES

		2018	2017
		R	R
Managed care management services		4 315 466	6 006 181
Wellness and preventative care		3 111 497	4 158 980
Maternity programme		1 203 969	1 847 202
Actuarial fees		2 091 948	2 011 038
Audit fees		2 126 808	1 861 777
External audit services for previous year's audit		1 555 737	1 552 686
External audit services for current year audit		329 971	309 090
Other		241 100	-
Bank charges		4 349 204	4 135 547
Consultation fees		4 468 321	6 316 618
Debt collection fees		582 619	1 166 504
Amortization		785 245	469 197
Depreciation	2	14 154 699	12 950 252
Employee benefit expenses	26	137 245 503	129 670 110
Employee recruitment, training and development		4 666 477	5 035 104
Insurance premiums		503 655	596 483
Information Technology		33 765 557	49 406 038
IT maintenance		2 396 200	3 652 093
License fees		7 613 650	6 675 709
Legal fees		1 696 673	4 712 479
Marketing and advertising expenses		36 011 559	29 632 687
Rent paid	27	28 592 318	27 032 072
Other expenses		7 258 499	3 799 261
Principal Officers' fees	26	5 038 242	11 906 741
Printing and stationery expenses		4 521 567	5 613 466
Registrar's levies and other fees		3 429 337	3 234 030
Telephone and postage fees		6 732 836	6 649 209
Total trustee remuneration and travel and accommodation expenses	29	2 307 048	2 111 319
Trustees vetting expenses		1 415 531	-
Travel, accommodation and conferences		4 942 095	4 337 837
		321 011 058	328 981 752

19. NET IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES

	2018	2017
	R	R
Trade and other receivables		
Members' and service providers' portions that are not recoverable		
Movement in provision	(5 278 715)	(7 439 253)
Bad debts recovered	422 485	1 032 161
Bad debts written off	(1 536 338)	(2 626 595)
	(6 392 567)	(9 033 687)

20. INVESTMENT INCOME

	Note	2018	2017
		R	R
Scheme:			
Financial assets at fair value through profit or loss:			
- Interest income		90 727 084	-
- Dividend income		5 935 390	-
Income from financial assets at fair value through other comprehensive income:			
- Dividend income		10 333 808	-
Cash and cash equivalents - interest income		1 999 220	-
Net realised gains /(losses) on financial assets at fair value through other comprehensive income		(7 130 443)	-
Net realised gains on financial assets at fair value through profit and loss		11 024 899	-
		112 889 958	-

	Note	2018	2017
Scheme:			
Financial assets at fair value through profit or loss:			
- Interest income		-	79 644 663
- Dividend income		-	17 444 020
Cash and cash equivalents - interest income		-	1 927 242
Net realised gains on available-for-sale financial assets		-	11 669 040
		-	110 684 964

	Note	2018	2017
Personal medical savings account trust monies invested			
Financial assets at fair value through profit or loss:			
- Interest income		39 754 943	-
Cash and cash equivalents - interest income		4 662 699	-
	13	44 417 642	-

	Note	2018	2017
Personal medical savings account trust monies invested			
Available-for-sale financial assets		-	37 967 583
Cash and cash equivalents - interest income		-	4 163 868
	13	-	42 131 450

(1) Income from financial assets at fair value through other comprehensive income:

	2018	2017
Net realised gains /(losses) on financial assets at fair value through other comprehensive income		
- Listed Equity	23 317 540	-
Fair value adjustment on Financial assets at fair value through other comprehensive income		
- Listed Equity	(28 556 455)	-

(2) Net realised gains (losses) on financial assets at fair value through profit and loss

	2018	2017
- Listed Bonds	9 693 026	-
- Linked Insurance Fund Policies	1 218 591	-
- Collective Investment Schemes	113 282	-
	11 024 899	-

21. SUNDRY INCOME

	2018	2017
	R	R
Unclaimed cheques and credits written off	1 252 553	1 600 305
Net profit on disposal of fixed assets	48 427	85 679
	1 300 980	1 685 984

22. INTEREST PAID ON PERSONAL MEDICAL SAVINGS TRUST ACCOUNTS

	Note	2018	2017
		R	R
Net Interest paid on members' personal medical saving account balances	23;26	43 869 929	41 630 290
		43 869 929	41 630 290

23. ASSET MANAGEMENT FEES

	Note	2018	2017
		R	R
Scheme			
Expenses for asset management services rendered	5	5 903 824	6 678 621
		5 903 824	6 678 621
Personal medical savings account trust monies invested			
Expenses for asset management services rendered	11	547 714	501 160
		547 714	501 160

24. OWN FACILITY NET EXPENDITURE

	2018	2017
	R	R
Income		
Income from medical services rendered in own facilities	(3 457 875)	(3 267 953)
	(3 457 875)	(3 267 953)
Expenditure in operating own facility		
Total healthcare provider costs	8 210 799	7 436 638
Changes in inventories	615 735	639 428
Administration expenses	364 185	346 355
Information Technology	299 483	304 584
Facilities expenditure	2 028 989	2 038 629
	11 519 191	10 765 634
Deficit on Own Facility	8 061 316	7 497 681

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.

25. OTHER LOSSES

	Note	2018	2017
		R	R
Net loss on disposal of investment property		100 000	-
Net loss on disposal of fixed assets	2	13 852	21 180
		113 852	21 180

26. EMPLOYEE BENEFIT EXPENSES

	Note	2018	2017
		R	R
Salaries and Bonuses		115 763 632	116 468 021
Retirement benefits		9 454 621	9 386 289
Medical and other benefits		13 162 504	12 254 113
Increase in leave pay accrual		4 361 011	3 682 831
Retirement benefit obligations		(458 023)	(214 403)
		142 283 745	141 576 851
Less: Principal Officer's compensation and benefits	30	-	(7 699 079)
- Salary		-	(857 740)
- Severance Payment		-	(6 500 000)
- Bonuses paid and provided for		-	-
- Retirement benefits		-	(59 328)
- Medical and other benefits		-	(282 010)
Less: Acting Principal Officer's compensation and benefits	30	(5 038 242)	(4 207 662)
- Salary		(2 174 606)	(2 093 610)
- Acting Allowance		(342 230)	(256 673)
- Bonuses paid and provided for		(1 911 274)	(1 389 845)
- Retirement benefits		(365 017)	(350 978)
- Medical and other benefits		(245 114)	(116 556)
		137 245 503	129 670 110

* Other benefits include leave encashment of R112 666 (2017: R0)

27. 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 18.

	2018	2017
	R	R
The future aggregate minimum lease payments under non-cancellable agreements are as follows:		
No later than 1 year	19 325 422	18 624 850
Later than 1 year and no later than 5 years	9 808 731	27 367 321
	29 134 153	45 992 170

28. CASH FLOWS FROM OPERATING ACTIVITIES

	Note	2018	2017
		R	R
Net contribution income	14	4 479 138 426	4 256 038 032
(Increase)/ decrease in insurance receivables	7	(25 258 043)	12 043 900
Cash Receipts from members - Contributions		**4 453 880 383**	**4 268 081 932**
Increase in Insurance receivables - Other	7	(7 617 782)	(5 661 083)
Less: Provision for impairment	19	(1 112 042)	(2 581 603)
Recovery under risk transfer arrangements outstanding claims provisions	7	1 073 389	1 905 237
Cash Receipts from members and providers		**(7 656 434)**	**(6 337 448)**
Cash Receipts from members and providers - Other loans and receivables	7	2 721 258	2 419 656
Other loans and receivables	7	(171 700 000)	-
Relevant healthcare expenditure	15;16	(3 989 323 832)	(3 712 106 868)
Increase in insurance liabilities	13	57 190 312,64	(15 389 742)
Increase in outstanding claims provision	12	10 026 611	46 494 763
Unclaimed cheques and credits write off	21	1 252 553	1 600 305
		(3 920 854 355)	**(3 679 401 542)**
Cash paid to providers and employees - non healthcare expenditure	17;18; 23;24	(409 807 924)	(413 616 528)
Eliminate non cash items:			
Depreciation	18	14 482 154	13 263 679
Impairment of intangible assets		785 245	469 197
Increase provision for leave	13	893 826	1 018 291
Decrease in provision for retirement benefit obligation	10	(503 607)	(1 117 636)
Increase in trade and other payables	13	8 014 725	12 450 370
Cash paid to providers and employees - non healthcare expenditure		**(386 135 581)**	**(387 532 626)**

29. TOTAL TRUSTEE REMUNERATION AND CONSIDERATION EXPENSES

	Fees for attending Board meetings	Annual Retainer Fees	Fees for attending subcommittee meetings	Total Remuneration	Travel & Accommodation	Consultation Fees	Training	Total considerations
	R	R	R	R	R	R	R	R
2018								
RF Camphor	157 917	48 895	55 745	262 557	-	-	-	**262 557**
PA Delport	109 235	34 925	68 659	212 819	-	-	-	**212 819**
LB Dlamini	92 038	-	55 746	147 784	15 821	-	-	**163 605**
GS Du Plessis	93 425	-	94 408	187 833	-	-	-	**187 833**
A Hartzenberg	51 818	-	47 973	99 791	-	-	2 000	**101 791**
L Heyl	45 768	-	57 137	102 905	-	-	2 000	**104 905**
M Joubert	51 818	-	47 973	99 791	13 752	-	2 000	**115 543**
PM Kennedy	107 294	-	114 063	221 357	100 907	-		**322 264**
T Legobye	51 818	-	29 645	81 463	-	-	2 000	**83 463**
E Marx	107 294	-	55 746	163 040	-	-	-	**163 040**
CM Mowatt	101 244	-	150 226	251 470	27 904	-	-	**279 374**
S Stevens	93 425	-	65 743	159 168	17 631	-	-	**176 799**
JCW Van Rooyen	55 476	-	12 375	67 851	-	-	-	**67 851**
JH Windell	41 607	-	16 662	58 269	6 935	-	-	**65 204**
	1 160 177	**83 820**	**872 101**	**2 116 098**	**182 950**	**-**	**8 000**	**2 307 048**

The training expense relates to induction of the newly appointed Trustees to the Board
Annual retainer fees are amounts paid in accordance with the provisions of the Trustee Remuneration Policy

	Fees for attending Board meetings	Annual Retainer Fees	Fees for attending subcommittee meetings	Total Remuneration	Travel & Accommodation	Consultation Fees	Training	Total considerations
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**
Carrying amount at the end of the year	**1 021 259**	**76 200**	**740 218**	**1 837 677**	**94 067**	**179 575**	**-**	**2 111 319**

The 2017 and 2018 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.

30. 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:

	2018 R	2017 R
Board of Trustees		
Gross medical scheme contributions received	830 274	703 701
Medical scheme contributions received - risk portion	727 985	618 600
Medical scheme contributions received - personal medical savings portion	102 288	85 101
Gross benefits paid out	466 619	427 272
Benefits paid from risk pool	382 919	328 563
Benefits paid from personal medical savings available	83 699	98 709
Saving available at year-end	58 328	34 604
Trustee remuneration and travel and accommodation expenses (Note 29)	2 307 048	2 111 319
Trustee other expenses	110 125	128 356

	2018 R	2017 R
Principal Officer		
Gross medical scheme contributions received	-	27 489
Medical scheme contributions received - risk portion	-	23 364
Medical scheme contributions received - personal medical savings portion	-	4 125
Gross benefits paid out	-	7 364
Benefits paid from risk pool	-	2 312
Benefits paid from personal medical savings available	-	5 052
Saving available at year-end	-	(913)
Principal Officer's compensation (Note 26)	-	7 699 079
Leave provision at end of year	-	-
Close family members of Principal Officer		
Gross medical scheme contributions received	-	21 381
Medical scheme contributions received - risk portion	-	17 475
Medical scheme contributions received - personal medical savings portion	-	3 906
Gross benefits paid out	-	13 891
Benefits paid from risk pool	-	1 481
Benefits paid from personal medical savings available	-	12 410
Saving available at year-end	-	(8 504)
Compensation to close family members of Principal Officer	-	340 074
Leave provision at end of year	-	-
Acting Principal Officer		
Gross medical scheme contributions received	67 644	62 400
Medical scheme contributions received - risk portion	54 120	49 920
Medical scheme contributions received - personal medical savings portion	13 524	12 480
Gross benefits paid out	77 727	7 701
Benefits paid from risk pool	73 214	2 727
Benefits paid from personal medical savings available	4 512	4 974
Saving available at year-end	61 289	48 783
Acting Principal Officer's compensation (Note 26)	5 038 242	4 207 662
Leave provision at end of year	221 884	238 995
Key management		
Gross medical scheme contributions received	500 615	563 092
Medical scheme contributions received - risk portion	414 139	468 420
Medical scheme contributions received - personal medical savings portion	86 476	94 672
Gross benefits paid out	363 606	564 788
Benefits paid from risk pool	285 908	473 598
Benefits paid from personal medical savings available	77 698	91 190
Saving available at year-end	198 658	177 679
Compensation to key management personnel	18 004 982	18 606 222
Leave provision at end of year	940 651	683 846
Service providers connected to key management and Board of Trustees		
Gross benefits paid to related party service providers for consultation	741 861	1 042 826

31. 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 15 for assumptions made.

(b) Impairment provision on debtors

Detailed disclosure of the annual impairment review of the Scheme is disclosed under Note 7 and 36.

(c) Risk transfer arrangement assumptions

Detailed disclosure of the risk transfer arrangement assumptions is made under Note 16.

(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 10.

(e) Outstanding claims provision

Detailed disclosure of the outstanding claims provision assumptions is made under Note 12.

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.

32. 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 2018 and the date of this report.

33. MATTERS OF NON-COMPLIANCE

Non-compliance with Section 1 and 20(2) of the Medical scheme's Act

"No medical scheme shall purchase any insurance policy in respect of any relevant health services other than to reinsure a liability in terms of section 26(1)"
This was highlighted by Circular 45 of 2018 that any such circumstances had to be rectified within 30 days of the date of the circular.

It was noted as part of Bestmed's International Travel policy with Bryte Insurance Company that some of the services under the policy does not relate to the business of a medical scheme as state in section 1 and 20(2) or 26(1) of the Act.

An addendum to the policy was signed on 30 November 2018 in order to comply with circular 45 of 2018.

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 system enhancement only came into effect from 1 August 2018. Commission is now only payable on full receipt of the contribution received.

With regard to the "various inconsistencies in the commission data relating to the brokers and brokerage names and accreditation numbers", this anomaly only occurs with non accredited brokers linked to accredited brokerages. The Scheme pays the commission over to the accredited brokerage only. The responsibility is that of the individual broker to obtain their accreditation from the CMS.

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 six benefit options of the Scheme, namely Beat3, Pace2, Pace3, Pace4, Pulse1 and Pulse2 made a net healthcare deficit.

After accounting for other income Beat3, Pace2, Pace4, Pulse1 and Pulse2 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 and exemption was received on 10 April 2019 effective till 1 April 2020.

Non-compliance with Section 35(8)(a), (c) and (d) 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)(a), (c) and (d) 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 Regulation 6(1) and Scheme Rule 15.3 - Claims to be submitted within 4 (four) months

Regulation 6(1) of the Act states that: "A medical scheme must not in its rules or in any other manner in respect of any benefit to which a member or former member of such medical scheme or a dependent of such member is entitled, limit, exclude, retain or withhold, as the case may be, any payment to such member or supplier of service as a result of the late submission or late re-submission of an account or statement, before the end of the fourth month
a) from the last date of the service rendered as stated on the account, statement or claim; or
b) during which such account, statement or claim was returned for correction."

Furthermore Rule 15.3 of the Bestmed Rules states that: "In order to qualify for benefits, any claim must, unless otherwise arranged, be signed and certified as correct by a Member and must be submitted to the Scheme not later than the last day of the 4th (fourth) month following the month in which the relevant health service was rendered."

33. MATTERS OF NON-COMPLIANCE (CONTINUED)

The Scheme continually evaluates and considers payments of stale claims. A stale claim policy is enforced, where the claims are investigated and decision made accordingly so as not to unfairly prejudice the members and service providers.

Non-compliance with Regulation 10(6) of the Act - PMB paid out of 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.

34. SURPLUS/ (DEFICIT) PER BENEFIT OPTION

	Beat1*	Beat2*	Beat3*	Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
	R	R	R	R	R	R	R	R	R	R	R
2018											
Average members for the financial year	**5 687**	**25 202**	**7 144**	**4 421**	**29 405**	**9 977**	**5 613**	**2 662**	**2 818**	**705**	**93 635**
Risk contribution income	**153 272 443**	**656 983 087**	**281 607 186**	**282 648 302**	**1 491 094 636**	**716 291 358**	**471 185 282**	**292 053 986**	**87 335 990**	**46 666 156**	**4 479 138 426**
Relevant healthcare expenditure	**(129 430 033)**	**(518 340 240)**	**(258 669 942)**	**(245 879 053)**	**(1 242 872 474)**	**(699 498 330)**	**(452 924 234)**	**(305 943 265)**	**(85 213 740)**	**(50 552 523)**	**(3 989 323 832)**
Net claims incurred	(129 643 980)	(519 288 407)	(258 121 430)	(247 025 956)	(1 248 939 179)	(701 950 126)	(455 267 027)	(306 708 646)	(84 058 152)	(50 434 488)	**(4 001 437 391)**
Risk claims incurred	(123 264 359)	(492 056 960)	(250 723 748)	(243 016 522)	(1 218 906 989)	(691 262 049)	(449 045 558)	(303 968 725)	(81 275 790)	(49 631 863)	**(3 903 152 564)**
Third party claims recoveries	111 911	1 537 574	757 948	1 037 559	3 535 536	701 571	186 445	299 177	434 627	1 599	**8 603 947**
Accredited managed healthcare services	(6 491 532)	(28 769 021)	(8 155 630)	(5 046 993)	(33 567 726)	(11 389 648)	(6 407 914)	(3 039 098)	(3 216 990)	(804 224)	**(106 888 775)**
Net income/(expenses) on risk transfer arrangements	213 947	948 166	(548 512)	1 146 903	6 066 706	2 451 796	2 342 793	765 382	(1 155 588)	(118 035)	**12 113 559**
Risk transfer arrangement premiums paid	(1 707 028)	(7 565 168)	(8 789 449)	(5 439 270)	(36 176 776)	(12 274 908)	(6 905 968)	(3 275 311)	(3 467 030)	(866 732)	**(86 467 640)**
Recoveries from risk transfer arrangements	1 920 976	8 513 334	8 240 937	6 586 173	42 243 481	14 726 704	9 248 761	4 040 693	2 311 442	748 697	**98 581 199**
Gross healthcare result	**23 842 411**	**138 642 847**	**22 937 244**	**36 769 249**	**248 222 163**	**16 793 028**	**18 261 048**	**(13 889 279)**	**2 122 250**	**(3 886 367)**	**489 814 594**
Broker service fees and other distribution fees	(3 840 449)	(18 505 393)	(5 663 632)	(2 003 209)	(28 856 078)	(7 038 826)	(5 745 402)	(1 509 935)	(1 641 766)	(27 035)	**(74 831 727)**
Administration and other operative expenses	(19 495 533)	(86 399 847)	(24 493 194)	(15 157 256)	(100 811 440)	(34 205 677)	(19 244 407)	(9 127 094)	(9 661 344)	(2 415 266)	**(321 011 058)**
Net impairment losses on healthcare receivables	(184 727)	(951 250)	(407 986)	(399 929)	(2 243 360)	(1 014 126)	(667 243)	(362 530)	(105 217)	(56 199)	**(6 392 567)**
Net healthcare result	**321 701**	**32 786 357**	**(7 627 569)**	**19 208 855**	**116 311 285**	**(25 465 602)**	**(7 396 004)**	**(24 888 838)**	**(9 286 078)**	**(6 384 866)**	**87 579 243**
Other income	**3 344 878**	**20 636 872**	**10 006 756**	**9 273 460**	**61 678 533**	**25 095 684**	**17 829 391**	**7 282 039**	**1 908 787**	**1 004 465**	**158 060 866**
Investment income	3 307 283	20 443 279	9 923 725	9 192 068	61 221 977	24 889 295	17 693 598	7 208 259	1 887 374	993 028	**156 759 886**
Scheme	3 262 204	16 798 656	7 204 863	7 062 566	39 616 757	17 909 023	11 783 220	6 402 129	1 858 095	992 444	**112 889 957**
Personal medical savings account trust monies invested	45 079	3 644 623	2 718 862	2 129 502	21 605 220	6 980 272	5 910 378	806 130	29 279	584	**43 869 929**
Other operating income	37 595	193 593	83 031	81 391	456 556	206 389	135 794	73 780	21 413	11 437	**1 300 980**
Other expenditure	**(451 923)**	**(5 739 656)**	**(3 617 412)**	**(3 010 305)**	**(26 545 996)**	**(9 213 784)**	**(7 379 913)**	**(1 604 567)**	**(261 010)**	**(124 354)**	**(57 948 920)**
Interest paid on personal medical savings trust accounts	(45 079)	(3 644 623)	(2 718 862)	(2 129 502)	(21 605 220)	(6 980 272)	(5 910 378)	(806 130)	(29 279)	(584)	**(43 869 929)**
Asset management fees	(170 604)	(878 522)	(376 794)	(369 352)	(2 071 844)	(936 591)	(616 229)	(334 813)	(97 173)	(51 902)	**(5 903 824)**
Own facility expenditure	(232 950)	(1 199 569)	(514 490)	(504 328)	(2 828 978)	(1 278 859)	(841 423)	(457 167)	(132 684)	(70 868)	**(8 061 316)**
Other losses	(3 290)	(16 942)	(7 266)	(7 123)	(39 954)	(18 062)	(11 884)	(6 457)	(1 874)	(1 000)	**(113 852)**
NET SURPLUS/(DEFICIT) FOR THE YEAR	**3 214 656**	**47 683 574**	**(1 238 225)**	**25 472 009**	**151 443 823**	**(9 583 701)**	**3 053 474**	**(19 211 366)**	**(7 638 301)**	**(5 504 754)**	**187 691 189**

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

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

	Beat1*	Beat2*	Beat3*	Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
	R	R	R	R	R	R	R	R	R	R	R
2017											
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 (EDO's). The EDO's namely Beat1 Network, Beat2 Network and Beat3 Network are included in the original ten options for reporting purposes.

35. 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.

35. 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.

Age group	General Practitioners	Specialists	Pathology	Medicines	Hospitals	Other	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
2018							
<30	18 136	86 667	31 706	41 488	312 296	77 829	**568 122**
30-39	10 948	62 924	24 203	39 269	190 803	51 283	**379 430**
40-49	11 697	67 735	28 188	55 291	188 146	69 907	**420 964**
50-59	16 250	106 252	38 843	89 555	292 065	106 416	**649 381**
60-69	16 025	133 350	42 937	97 350	354 124	122 233	**766 018**
70 +	20 872	168 742	60 144	111 812	497 846	152 637	**1 012 052**
Total	93 927	625 670	226 020	434 766	1 835 280	580 305	**3 795 967**
2017							
<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**

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 16). 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:

	Optometry	Emergency evacuation
2018 Options		
Beat1	-	100%
Beat2	-	100%
Beat3	100%	100%
Beat4	100%	100%
Pace1	100%	100%
Pace2	100%	100%
Pace3	100%	100%
Pace4	100%	100%
Pulse1	100%	100%
Pulse2	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.

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 2019 and March 2019 for 2018 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 2018 that have already been paid, the claims for 2018 estimated to be paid in future payment months are still subject to uncertainty.

35. INSURANCE RISK MANAGEMENT REPORT (CONTINUED)

Underwriting risk (continued)

The table below illustrates the effect of a 10% increase and decrease in this amount.

	Claims for 2018 services paid from Jan 2019 to Mar 2019	2018 Claims estimated at that time to be paid after Mar 2019	Outstanding claims provision	% Change in outstanding claims provision
	R	R	R	%
2018 Scenario				
Base scenario	136 942 581	28 566 592	165 509 173	
10% increase	136 942 581	31 423 252	168 365 833	1.73%
10% decrease	136 942 581	25 709 933	162 652 514	(1.73%)

36. 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;
- Financial assets investments; and
- Cash and cash equivalents.

Financial assets 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.

	2018	2017
	R	R
Scheme		
Financial assets at fair value through Other comprehensive income:	-	-
- Listed Equity	137 893 153	-
- SA Listed Properties	29 675 370	-
	167 568 522	-
Financial assets at fair value through profit or loss:		
- Money Market Instruments	1 943 345	-
- Listed Bonds	73 191 693	-
Linked Insurance Fund policies	717 201 480	-
Collective Investment Schemes	874 316 839	-
	1 666 653 357	-
Personal medical savings account trust monies invested		
Segregated portfolio	251 081 060	-
- Money Market Instruments	251 081 060	-
Linked Insurance Fund policies	268 953 493	-
Total	**520 034 553**	**-**

	2018	2017
	R	R
Scheme		
Available-for-sale investments	-	663 587 430
- Listed Equity	-	275 626 109
- Money Market Instruments	-	154 882 842
- Listed Bonds	-	150 933 557
- SA Listed Properties	-	76 331 136
- Exchange Traded Funds	-	5 813 787
- International Fixed Interest Instruments	-	-
Linked Insurance Fund policies	-	453 651 722
Collective Investment Schemes	-	533 707 471
	-	1 650 946 623

36. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

Financial assets investments (continued)

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

	2018	2017
	R	R
Personal medical savings account trust monies invested		
Segregated portfolio	-	232 535 098
- Money Market Instruments	-	229 199 800
- Listed Bonds	-	3 335 298
Linked Insurance Fund Policies	-	248 254 030
Total	-	480 789 128

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 Financial assets investments and market gains/losses would increase/decrease the Financial assets 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%

	Carrying value at year-end	Effect on equity if the listed equity index strengthens/ (weakens) by 10%
	R	R
2018		
Listed Equity	137 893 153	13 789 315
SA Listed Properties	29 675 370	2 967 537
2017		
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

Sensitivity analysis

The Scheme acquired units in linked insurance funds 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 2018	(215 160 444)	(107 580 222)	(35 860 074)	35 860 074	107 580 222	215 160 444
31 December 2017	(117 776 252)	(58 888 126)	(19 629 375)	22 682 586	68 047 758	136 095 516

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.

36. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

Sensitivity analysis table

The following table summarises the Scheme's cash and cash equivalents and Financial assets 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%
	R	R	R	R	R
As at 31 December 2018					
Money Market Instruments					
- Scheme	1 943 345	-	-	1 943 345	19 433
- Personal medical savings account trust monies invested	35 024 010	216 057 050	-	251 081 060	2 511 055
Listed Bonds					
- Scheme	-	3 149 100	70 042 593	73 191 693	731 917
Collective Investment Schemes:	353 221 269	-	521 095 570	874 316 839	8 743 168
Cash and cash equivalents					
- Scheme	16 775 115	-	-	16 775 115	167 751
- Personal medical savings account trust monies invested	200 332 418	-	-	200 332 418	2 003 324
Total	**607 296 157**	**219 206 151**	**591 138 163**	**1 417 640 471**	**14 176 649**

	1 - 3 months	4 - 12 months	1 - 5 years	Carrying value at year-end Total	Effect if interest rate increase by 1%
	R	R	R	R	R
As at 31 December 2017					
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**

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

	2018	2017
	%	%
Financial Assets		
Scheme	4,9%	9,8%
Personal medical savings account trust monies invested	8,2%	8,6%
Cash and cash equivalents		
Scheme	6,9%	7,1%
Personal medical savings account trust monies invested	2,6%	2,9%

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 36; 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.

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:

	2018	2017
	R	R
Financial assets at fair value through profit or loss	2 186 687 911	-
Scheme	1 666 653 357	-
Personal medical savings account trust monies invested	520 034 553	-
Financial assets at fair value through Other comprehensive income	167 568 522	-
Available-for-sale investments	-	2 131 735 751
Scheme	-	1 650 946 623
Personal medical savings account trust monies invested	-	480 789 128
Trade and other receivables	265 762 863	70 262 212
Insurance receivables	79 147 529	51 552 230
Other loans and receivables	186 439 297	17 460 555
Recovery under risk transfer arrangements outstanding claims provisions	176 037	1 249 426
Cash and cash equivalents	217 107 533	320 594 010
Scheme	16 775 115	160 446 441
Personal medical savings account trust monies invested	200 332 418	160 147 569
	2 837 126 829	2 522 591 972

36. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

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.

	2018	2017
	R	R
The maximum credit exposure to member and service provider claims receivables was:		
Member claim receivables	8 732 085	4 445 481
Service provider claim receivables	1 832 224	1 082 395
	10 564 308	5 527 876
Trade and other receivables disclosed by a quantitative analysis and maximum credit exposure at the end of the year:		
Financial assets that are neither past due nor impaired	186 615 334	18 709 981
Financial assets that are past due but not yet impaired	79 147 529	51 552 230
Financial assets that are impaired	12 974 491	7 693 965
Provision for impairment	(12 974 491)	(7 693 965)
Total credit exposure	265 762 863	70 262 212

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 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**
Balance at 1 January 2018	215 944	4 749 438	2 728 584	7 693 965
Increase/(decrease) in provision for impairment	(154 262)	2 813 038	2 621 750	5 280 526
Balance at 31 December 2018	**61 682**	**7 562 476**	**5 350 334**	**12 974 491**

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.

		2018		2017	
Counterparty	Credit rating	Credit limit	Balance	Credit limit	Balance
		R	R	R	R
Nedbank	Aa1.za	1 005 030 755	194 267 531	896 610 921	145 246 574
ABSA	Aa1.za	1 005 030 755	211 570 980	896 610 921	238 473 162
Standard Bank	Aa1.za	1 005 030 755	114 576 154	896 610 921	168 118 382
FNB	Aa1.za	1 005 030 755	190 848 834	896 610 921	96 946 548
Investec	Aa1.za	1 005 030 755	80 496 432	896 610 921	65 036 623

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.

	2018	2017
	R	R
Insurance receivables		
Counterparties without external credit rating		
Contribution debtors	72 715 159	47 457 116
Member claims debtors	8 732 085	4 445 481
Provider claims debtors	1 832 224	1 082 395

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.

	2018	2017
Cash and cash equivalents		
Counterparties with external credit ratings (Moody's)		
Aa1.za	217 107 533	320 594 010
	217 107 533	320 594 010

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.

Financial assets

The credit ratings of Financial assets 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.

36. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

Fair values of financial assets by hierarchy level

Assets measured at fair value: 2018	Level 1	Level 2	Level 3
	R	R	R
Financial assets			
Scheme			
Financial assets at fair value through Other comprehensive income	167 568 522	-	-
Financial assets at fair value through profit or loss:			
Listed Bonds	73 191 693	-	-
Money Market Instruments	1 943 345	-	-
Linked Insurance Fund policies	-	717 201 480	-
Collective Investment Schemes	-	874 316 839	-
Personal medical savings account trust monies invested			
Financial assets at fair value through profit or loss:	-	-	-
Money Market Instruments	2 955 769	248 125 291	-
Linked Insurance Fund policies	-	268 953 493	-
	245 659 330	**2 108 597 103**	-

Assets measured at fair value: 2017	Level 1	Level 2	Level 3
	R	R	R
Financial assets			
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**	-

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	Financial assets	Insurance receivables and payables	Total carrying amount
	R	R	R	R	R
2018					
Investments					
- Financial assets at fair value through Other comprehensive income	-	-	167 568 522	-	167 568 522
- Financial assets at fair value through profit or loss	-	-	1 666 653 357	-	1 666 653 357
Personal medical savings account trust investment					
- Financial assets at fair value through profit or loss	-	-	520 034 553	-	517 078 785
Cash and cash equivalents					
- Scheme	16 775 115	-	-	-	16 775 115
- Personal medical savings account trust investment	200 332 418	-	-	-	200 332 418
Trade and other receivables	-	186 439 297	-	79 323 565	265 762 863
Personal medical savings account trust liability	-	-	-	(736 004 819)	(736 004 819)
Outstanding claims provision	-	-	-	(165 676 037)	(165 676 037)
Trade and other payables	-	-	-	(186 818 090)	(186 818 090)
	217 107 533	**186 439 297**	**2 354 256 433**	**(1 009 175 381)**	**1 745 672 115**

	Cash and cash equivalents	Loans and receivables	Financial assets	Insurance receivables and payables	Total carrying amount
	R	R	R	R	R
2017					
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
Cash and cash equivalents					
- Scheme	160 446 441	-	-	-	160 446 441
- Personal medical savings account trust investment	160 147 569	-	-	-	160 147 569
Personal medical savings account trust investment					
- Segregated portfolio	-	-	232 535 098	-	232 535 098
- Linked Insurance Fund policies	-	-	248 254 030	-	248 254 030
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**

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36. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

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 2018	Fair value of asset investment at 31/12/2018 *	% 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	299 781 109	353 221 269	1,23
Investec High Income Fund Class A Conservative maturity profile investing in money market instruments	1	301 052 245	400 592 512	2,98
Investec Stable Money Market Stable returns over the medium term, with a focus on conservative money market instruments	1	1 288 122	1 445 891	0,11
		602 121 476	**755 259 672**	

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**	

*The fair value of financial assets is included in Financial assets in the statement of financial position.
**This represents the entity's percentage interest in the total net assets of the investee funds.

The fair value of publicly traded financial instruments held as Financial assets 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.

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.

	2018	2017
	R	R
Collective Investment Schemes		
Scheme	874 316 839	533 707 471
Money Market funds		
Personal medical savings account trust monies invested	520 034 553	480 789 128
	1 394 351 392	**1 014 496 599**

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 below summarises the Scheme's exposure to liquidity risk.

As at 31 December 2018	1 - 3 months	4 - 12 months	1 - 5 years	Total
	R	R	R	R
FINANCIAL ASSETS				
Financial assets investments				
Scheme	355 164 614	3 282 598,03	1 475 774 668	1 834 221 880
Personal medical savings account trust monies invested	35 024 010	216 057 050	-	251 105 507
Trade and other receivables	-	79 323 565	-	265 762 863
Cash and cash equivalents				
Scheme	16 775 115	-	-	16 775 115
Personal medical savings account trust monies invested	200 332 418	-	-	200 332 418
Total financial assets	**607 296 157**	**298 663 214**	**1 475 774 668**	**2 568 197 783**

36. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

Maturity analysis of financial assets and liabilities (continued)

The table below summarises the Scheme's exposure to liquidity risk. (continued)

As at 31 December 2018	1 - 3 months	4 - 12 months	1 - 5 years	Total
	R	R	R	R
FINANCIAL LIABILITIES				
Personal medical savings account liability	-	736 004 819	-	736 004 819
Outstanding claims provision	165 676 037	-	-	165 676 037
Trade and other payables	186 818 090	-	-	186 818 090
Total financial liabilities	**352 494 127**	**736 004 819**	**-**	**1 088 498 946**
Net liquidity gap	**254 802 030**	**(437 341 605)**	**1 475 774 668**	**1 479 698 837**

As at 31 December 2017	1 - 3 months	4 - 12 months	1 - 5 years	Total
	R	R	R	R
FINANCIAL ASSETS				
Financial assets 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**

	2018	2017
	R	R
Cash and cash equivalents		
Cash and cash equivalents consist of the following:		
Current accounts	213 501 765	195 216 534
Scheme	13 169 347	35 068 965
Personal medical savings account trust monies invested	200 332 418	160 147 569
Deposits on call account	3 605 768	125 377 477
Scheme	3 605 768	125 377 477
Total	**217 107 533**	**320 594 010**

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 31.94% of gross contributions at 31 December 2018 and 29.37% at 31 December 2017.

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

	2018	2017
	R	R
Total members' funds per statement of financial position	1 771 305 337	1 612 170 602
Unrealised loss on revaluation of investment property in the statement of comprehensive income	-	500 000
Revaluation reserves	(75 773 987)	(134 296 275)
	1 695 531 350	1 478 374 327
Gross contributions	**5 308 251 202**	**5 033 075 396**
Solvency margin (accumulated funds / gross contributions x 100)	**31.94%**	**29.37%**

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