FEDHEALTH

We let you be **YOU**.

annual financial report

2019

CONTENTS

3 - 29	Report of the Board of Trustees
30	Statement of Responsibility by the Board of Trustees
31	Statement of Corporate Governance by the Board of Trustees
32 - 35	Independent Auditor's Report
36	Statement of Financial Position
37	Statement of Comprehensive Income
38	Statement of Changes in Funds and Reserve
39	Statement of Cash Flows
40 – 100	Notes to the Financial Statements

REPORT OF THE BOARD OF TRUSTEES

The Board of Trustees has pleasure in presenting its report for the year ended 31 December 2019

1 Description of Fedhealth Medical Scheme

1.1 Terms of registration

Fedhealth Medical Scheme (the Scheme/Fedhealth) is a not-for-profit open medical scheme registered in terms of the Medical Schemes Act no. 131 of 1998, as amended (the Act). It is registered (Registration number 1202) with and regulated by the Council for Medical Schemes (the Council).

The Scheme exists for the benefit of its members. The Board of Trustees of the Scheme (the Board) oversees and governs the business of the Scheme on behalf of its members.

1.2 Benefit options within Fedhealth Medical Scheme

The Scheme provides three product ranges and a low cost option, MyFed. The product ranges caters for market segments at different life stages from comprehensive options, MaxiFed (Maxima Plus, Maxima Exec and Maxima Exec GRID) for conservative and sicker members to discounted options, FlexiFed, for young and healthy members. The more comprehensive options have higher benefit limits, lower co-payments and better day-to-day benefits.

At every life stage a member can select an option that meets their needs with regard to affordability and the freedom of provider choice. The more limited the choice the higher the contribution discount compared to unrestricted options. In addition to the risk benefits covered in the options above, FlexiFed options gives members access to an interest-free loan facility. The ELECT and GRID options are efficiency discount options (EDO), which contain the same level of benefits as the main options at a discounted contribution rate. For these options, medical services should be obtained from the Scheme Networks. Note 16 of the financial statements provide further detail.

Options per life stage:

Comprehensive for Conservative and Sickly	Low Cost
• Maxima Plus • Maxima Exec • Maxima Exec GRID	• MyFed

Young and Healthy	Family Startup	Young Family	Mature Family
• FlexiFed 1 • FlexiFed 1 ELECT	• FlexiFed 2 • FlexiFed 2 ELECT • FlexiFed 2 GRID	• FlexiFed 3 • FlexiFed 3 ELECT • FlexiFed 3 GRID	• FlexiFed 4 • FlexiFed 4 ELECT • FlexiFed 4 GRID

REPORT OF THE BOARD OF TRUSTEES *(continued)*

1 Description of Fedhealth Medical Scheme *(continued)*

1.3 Personal medical savings accounts (PMSA)

The Scheme offers members a savings account on the MaxiFed and FlexiFed options as set out above. The FlexiFed options savings contributions are significantly lower to give members access to an interest-free loan facility. These accounts assist members in managing cash flows for the payment of healthcare services for which they are responsible. PMSA monies are managed on behalf of the members in terms of the Scheme rules.

The full annual amount is available immediately, although the members only contribute towards this monthly in arrears. In the event that a member's PMSA is exhausted before the member has paid all of the monthly contributions, the Scheme will recognise a receivable for the advance.

The savings may only be used for healthcare services and are only refundable as provided in Regulation 10 of the Act. These savings accounts may not be utilised to provide for benefits and co-payments relating to Prescribed Minimum Benefits (PMBs).

Active members earn 4% interest (2018: 4%) on their accumulated savings. In terms of the rules of the Scheme, the PMSA liability is underwritten by the Scheme.

PMSA balances are refundable when a member leaves the Scheme or transfers to a medical scheme option which does not have a PMSA. All refunds and transfers are paid in terms of the Scheme's rules.

1.4 Loans to Members – MediVault transferred to Wallet

The FlexiFed options give members access to an interest-free loan facility called the MediVault Benefit. The amount allocated can be used to pay for day-to-day medical expenses and is based on the member's selected option and family composition. These funds are not pro-rated based on the member's join date and can be accessed at any time during the year. To access these funds the member is required to accept the terms and conditions before transferring an amount, in full upfront, or in part as needed in their Wallet. The member only has to pay back the money transferred from the MediVault to the Wallet – interest free over a period of twelve (12) months. Day-to-day benefit claims are funded from available savings, thereafter the member's Wallet account if activated, or self-funded.

1.5 Risk transfer arrangement

The Iso Leso Optics Ltd (Iso Leso) contract is disclosed in these financial statements as the only risk transfer arrangement.

Iso Leso Optics Ltd

Iso Leso's primary objective is to manage eye care for MyFed members and their dependants. The benefits are designed to meet the basic clinical needs of its members.

REPORT OF THE BOARD OF TRUSTEES *(continued)*

1 Description of Fedhealth Medical Scheme *(continued)*

1.5 Risk transfer arrangement *(continued)*

Iso Leso Optics Ltd *(continued)*

Iso Leso also advises the Scheme on future optical benefits, clinical issues, trends and more particularly, ensures functional vision is achieved within the framework of the optical benefits available to MyFed members.

Iso Leso receives a capitation fee in respect of all MyFed members for visits to optometrists for their comprehensive eye examination, single vision and bifocal spectacles.

1.6 Insurance risk management

The primary insurance activity carried out by the Scheme is to assume the financial healthcare benefits received by members and their dependants are in terms of the rules of the Scheme. This risk relates to the health of the Scheme's members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under each medical insurance contract.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, service provider profiling and monitoring of emerging issues.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analysis, scenario analysis and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected.

Insurance events are, by their nature, random and the actual number and size of events during any one year may vary from those estimated with established statistical techniques. There are no changes to assumptions used to measure insurance assets and liabilities that have a material effect on the financial statements and there are no terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the Scheme's cash flows.

1.7 Fedhealth Amalgamation with Topmed Medical Scheme (Topmed)

An amalgamation between Fedhealth and Topmed (Registration number 1422) was confirmed and effective from 1 August 2019 in terms of Circular 55 of 2019 issued by the Council on 31 July 2019. The amalgamation involved the assets, liabilities and members' funds of Topmed being transferred to Fedhealth, effective 1 August 2019, for no cash consideration.

REPORT OF THE BOARD OF TRUSTEES *(continued)*

2 Management

2.1 Board of Trustees

Board of Trustees in office during the year under review and at the date of this report are as follows:

T Jackson	Chairman (Trustee)	
M Govender	Vice Chairman (Trustee)	
N Byrne	Trustee	Appointed 1 August 2019
J Cloete	Trustee	Re-elected 25 July 2019
M Duly	Trustee	
G Eloff	Trustee	Re-elected 25 July 2019
A Fourie	Trustee	Appointed 1 August 2019
P Hemus	Trustee	
Dr M Mojapelo-Mokotedi	Trustee	
C Norton	Trustee	
N Parker	Trustee	Re-elected 25 July 2019
D Tretheway	Trustee	Appointed 1 August 2019
J Viljoen	Trustee	Appointed 1 August 2019

2.2 Principal Officer

J Yatt

2.3 Registered office address and postal address of the Scheme

C/o Medscheme Holdings (Pty) Ltd
Medscheme Office Park
37 Conrad Street
Florida North
Roodepoort
1709

Private Bag X3045
Randburg
2125

www.fedhealth.co.za

2.4 Employees

Scheme Operational Executive: T Endersby
Commercial Executive: M Morton

C/o Medscheme Holdings (Pty) Ltd
Medscheme Office Park
37 Conrad Street
Florida North
Roodepoort
1709

Private Bag X3045
Randburg
2125

REPORT OF THE BOARD OF TRUSTEES *(continued)*

2 Management *(continued)*

2.5 Scheme administrator during the year

Medscheme Holdings (Pty) Ltd (Medscheme)
Medscheme Office Park
37 Conrad Street
Florida North
Roodepoort
1709

Private Bag X3045
Randburg
2125

Administrator accreditation number: 21

Topmed winddown
Private Health Administrators (Pty) Ltd (PHA)
70 Buckingham Terrace
Westville
3629

P O Box 343
Westville
3630

Administrator accreditation number: 11

2.6 Scheme managed care administrators during the year

Medscheme Holdings (Pty) Ltd
Medscheme Office Park
37 Conrad Street
Florida North
Roodepoort
1709

P O Box 1101
Florida Glen
1708

Managed care accreditation number: 53

Aid for Aids Management (Pty) Ltd
Medscheme Office Park
37 Conrad Street
Florida North
Roodepoort
1709

P O Box 1101
Florida Glen
1708

Managed care accreditation number: 94

Topmed winddown
Private Health Administrators (Pty) Ltd
70 Buckingham Terrace
Westville
3629

P O Box 343
Westville
3630

Managed care accreditation number: 39

REPORT OF THE BOARD OF TRUSTEES *(continued)*

2 Management *(continued)*

2.7 Investment managers during the year

Old Mutual Wealth Trust Company (Pty) Ltd
2nd Floor, 1 Mutual Place
107 Rivonia Road
Sandton
2196

P O Box 2444
Saxonwold
2132

Financial service provider number (FSP): 18427

Taquanta Asset Management (Pty) Ltd
7th Floor, Newlands Terraces
Boundary Road, Newlands
Cape Town
7700

P O Box 23540
Claremont
7708

FSP: 618

Sanlam Investment Management (Pty) Ltd
55 Willie van Schoor Avenue
Bellville
7536

Private Bag X8
Tyger Valley
7530

FSP: 579

Sanlam Private Wealth (Pty) Ltd
55 Willie van Schoor Avenue
Bellville
7536

Private Bag X8
Tyger Valley
7530

FSP: 37473

Truffle Asset Management (Pty) Ltd
Ground Floor, Lancaster Building
Hyde Park Lane Business Complex
Corner William Nicol Drive and Jan Smuts Avenue
Hyde Park
2196

P O Box 535
Pinegowrie
2123

FSP: 36584

Prudential Investment Managers (SA) (Pty) Ltd
7th Floor, Protea Place
40 Dreyer Street
Claremont
7708

P O Box 23167
Claremont
7735

REPORT OF THE BOARD OF TRUSTEES *(continued)*

2 Management *(continued)*

2.7 Investment managers during the year *(continued)*

Allan Gray (Pty) Ltd
1 Silo Square
V&A Waterfront
Cape Town
8001

P O Box 51318
V&A Waterfront
Cape Town
8002

FSP: 6663

2.8 Asset consultant during the year

Simeka Consultants & Actuaries (Pty) Ltd
Simeka House
The Vineyards Office Estate
99 Jip de Jager Street
Bellville
7532

P O Box 350
Sanlamhof
7530

FSP: 13900

2.9 Actuary

Medscheme Holdings (Pty) Ltd
The Boulevard, Buildings F & G
Searle Street
Woodstock
7925

P O Box 38632
Pinelands
7430

Accreditation number: 53

Topmed Actuary

Cadiant Partners Actuarial and Consulting Solutions (Pty) Ltd
2nd Floor, 3 Gwen Lane
Sandton
2196

Private Bag X24
Sandton
2146

FSP: 44415

REPORT OF THE BOARD OF TRUSTEES *(continued)*

3 External Auditor

KPMG Inc.
85 Empire Road
Parktown
Johannesburg
2193

Private Bag 9
Parkview
2122

4 Internal Auditor

AfroCentric Health Ltd
Medscheme Office Park
37 Conrad Street
Florida North
Roodepoort
1709

Private Bag X3045
Randburg
2125

5 Scheme Committees

The Scheme's governance structure comprises seven committees. Each Committee of the Board has terms of reference which set out the structures and functions of that committee. The terms of reference are reviewed by each committee and approved by the Board annually.

5.1 Investment Committee

The membership, authority and duties of the Investment Committee are governed by terms of reference set by the Board. The Scheme's investment strategy takes into consideration both constraints imposed by legislation and those set by the Board.

The Investment Committee comprises:

Chairman: P Hemus
Trustee: G Eloff
Trustee: T Jackson
Trustee: D Tretheway
Advisor: W le Roux (From Simeka Consultants and Actuaries (Pty) Ltd)

The mandate of the Investment Committee is to:

- review the investment strategy and policy documents annually and recommend changes to the Board as necessary;
- review the effectiveness and the achievement of the objectives of the investment policy/strategy;
- oversee the criteria and process for the selection of external investment managers;
- recommend the contractual arrangements for the investment managers and investment consultants;
- monitor investment and fund manager performance;
- review performance of the investment portfolio against targeted benchmarks and, if performance results are unacceptable, consider what changes that may be required;
- recommend all investment transactions;
- ensure compliance with applicable legislation; and
- report regularly to the Board on committee activities, issues and related recommendations.

REPORT OF THE BOARD OF TRUSTEES *(continued)*

5 Scheme Committees *(continued)*

5.1 Investment Committee *(continued)*

The Trustees are confident that the Scheme's investment strategy is well set up to benefit from long-term growth, but also to absorb short-term shocks that tend to be felt from time to time.

The Scheme achieved a return of 10.6% (2018: 5.4%) over the year of 2019 for the invested funds (including assets that were transferred from Topmed), against the inflation rate of 3.6% (2018: 4.4%) and the Scheme's internal benchmark (CPI +3.5%) of 7.1% (2018: 7.9%). The historic Fedhealth assets (invested between Sanlam Investment Management (Pty) Ltd (SIM), Taquanta Asset Management (Pty) Ltd (Taquanta) and Truffle Asset Management (Pty) Ltd (Truffle) provided even more impressive returns than the 10.6% reported above. The returns achieved by the Scheme were exceptional – particularly when considering the risk-controlled investment strategy employed to limit potential downside returns. The Taquanta and SIM portfolios did particularly well, driven by very good asset selection within the interest-bearing investment market (bonds and cash). The Scheme therefore met the internal target of CPI +3.5% quite comfortably during 2019. The return over the last 3 years (2017 - 2019) was 8.9% (2018: 7.1%, 2017: 7.9%) against a benchmark of 8.05% (2018: 9.0%, 2017: 9.1%), reflecting a strengthening of long-term performance against the benchmark.

The Scheme had an effective equity asset exposure (excluding property) of 28.5% at 31 December 2019 (2018: 19.7%). The weighted average interest earned on cash and cash equivalents was 6.9% (2018: 7.5%).

Section 35(8)(a), (c) and (d) of the Act sets out the prohibition of investments in an employer who participates in the medical scheme or in any medical scheme administrators. The Scheme is currently invested in Discovery Holdings Ltd, Liberty Holdings Ltd, MMI Holdings Ltd, Sanlam Life Insurance Ltd and Sanlam Ltd through portfolios managed by underlying investment managers. The Council renewed the exemption on 5 February 2019 and the exemption was granted for a period of 12 months, effective 1 February 2019. and further exemption to 1 February 2021 has been applied for.

In 2019, the FTSE / JSE All Share Index produced 12.1% (2018: -8.5%) and other indices also performed positively. This was a conducive environment for investing in equities. Truffle is an aggressive balanced portfolio and is expected to have 50% or more of its assets invested in shares over time. Over this particular calendar year, Truffle posted a return of 16.0% (2018: 2.4%).

Bond yields offered investment opportunities over the year, which were exploited efficiently by Taquanta, which does not invest in equities, but in cash and bonds and other interest bearing instruments. Taquanta delivered 11.8% (2018: 10.7%). return for the year.

The SIM portfolio is a low risk absolute return portfolio, with the aim not to erode capital over any 12 months. Its risk level falls between that of the Truffle and Taquanta portfolios. 2019 was a year where the imperative was to try and protect the Scheme from any losses over the calendar year, which SIM was able to do, delivering 10.1% (2018: 2.1%).

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2019 financial year.

The assets of Topmed were transferred to Fedhealth on 1 August 2019. The investment strategy of the former's assets were tweaked to be more in line with that of the latter's, but without applying whole scale change. This was effected at the end of 2019. The return on the assets coming from Topmed was slightly lower than the historic Fedhealth assets, but was still commendable.

5.2 Risk and Legal Committee

The membership, authority and duties of the Risk and Legal Committee are governed by terms of reference set by the Board.

The Risk and Legal Committee comprises:

Chairman: G Eloff
Trustee: N Byrne
Trustee: N Parker
Trustee: M Govender (Resigned from the committee 31 July 2019)
Trustee: T Jackson
Trustee: D Tretheway
Trustee: J Viljoen

REPORT OF THE BOARD OF TRUSTEES *(continued)*

5 Scheme Committees *(continued)*

5.2 Risk and Legal Committee *(continued)*

The mandate of the Risk Committee is to:

- consider the level of governance in the various aspects of the functioning and activities of the Board;
- review policy, draft policy proposals and monitor good governance in respect of procedures by the Board and the Scheme in general and make recommendations to the Board;
- develop and maintain a risk control framework in line with best practice to ensure that risk management efforts are integrated and optimised throughout the Scheme;
- ensure that risk policies and strategies are aligned to key Scheme objectives and effectively managed;
- develop reporting guidelines which focus on stakeholder expectations and provide assurances on the adequacy and effectiveness of the risk management function within the Scheme;
- ensure that risk awareness activities are put into practice at Scheme operational levels;
- ensure that risk identification, measurement and control methodologies result in effective mitigation of risks facing the Scheme;
- entrench a risk control framework into everyday operations which focuses on automated systems and human capital;
- develop guidelines within the risk and control framework for the identification and exploitation of opportunities;
- ensure that the risk and control framework is inclusive of operational legal implications; and
- regularly review the relevant literature from appropriate sources applicable to compliance, legal and governance.

The Board considers legislation in the establishment of governance and risk structures and processes, with appropriate checks and balances that enable the Board to discharge its legal responsibilities based on the principles of effective leadership, sustainability, innovation, fairness, fair treatment of members, collaboration and social transformation.

The Board has subscribed to the Governance and Compliance Instrument (GCI Tool), which was developed by the Institute of Directors of Southern Africa and the Council, in collaboration with The Global Platform for Intellectual Property. The GCI Tool is a web based assurance framework that allows medical schemes to assess their level of compliance in respect of the requirements of the King Reports and general governance. Having already completed the Council Compliance Questionnaire and self-assessment against the 16 principles of King IV during 2018, the Board is satisfied that the governance of the Scheme is aligned with the principles of King IV and that it is overseeing the application of the relevant practices.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2019 financial year.

5.3 Remuneration Committee

The membership, authority and duties of the Remuneration Committee are governed by terms of reference set by the Board.

The Remuneration Committee comprises:

Chairman: N Parker
Trustee: N Byrne
Trustee: T Jackson
Trustee: M Govender
Trustee: P Hemus
Trustee: J Viljoen

The mandate of the Remuneration Committee is to:

- review the on-going appropriateness and relevance of the remuneration policies and procedures;

5 Scheme Committees *(continued)*

5.3 Remuneration Committee *(continued)*

The mandate of the Remuneration Committee is to: *(continued)*

- oversee the implementation of the remuneration policy within the Scheme;
- recommend the overall policy for remuneration packages of the Board and its committees;
- recommend the overall policy for remuneration packages for all senior staff members directly employed by the Scheme, in a form and amount which will attract, retain, motivate and reward high calibre individuals;
- determine and review the remuneration packages of the Board and senior staff members directly employed by the Scheme;
- review policies for the retention and recruitment of senior staff directly employed by the Scheme, on professional and equivalent grades;
- disclose any payments or considerations made to Trustees in the particular year at the Annual General Meeting;
- review the performance of the Trustees and senior staff members directly employed by the Scheme, annually, to ensure that performance is linked to the priorities of the Scheme for the forthcoming year;
- assist the Board in developing and implementing a systematic, open and proactive performance evaluation programme for the Board and senior staff;
- recommend the annual remuneration for Trustees and the Chairman of the Board;
- advise on the terms and conditions of contracts or renewal thereof of senior staff directly employed by the Scheme; and
- evaluate the balance of skills, knowledge and experience of the Board and prepare a description of the roles and capabilities required by the Board.

The Board assumes significant responsibilities and fiduciary risks throughout the year and has independent professions to consider. It commits a sizeable amount of time to serve the needs of the Scheme and its members. It is therefore important that the Scheme remunerates its Trustees and Committee members adequately to ensure that persons with appropriate skills and knowledge are attracted and retained by the Scheme. Remuneration and considerations paid to Board members are disclosed in Note 11.1 to the financial statements.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2019 financial year.

5.4 Finance Committee

The membership, authority and duties of the Finance Committee are governed by terms of reference set by the Board.

The Finance Committee comprises:

Chairperson: M Govender
Trustee: J Cloete
Trustee: T Jackson
Trustee: D Tretheway

The Finance Committee is mandated to take steps on behalf of the Board as necessary in fulfilling its oversight responsibilities. The Committee is further mandated to receive and review the management accounts as prepared by the administrator of the Scheme and to ensure that all financial processes are carried out properly. The Committee may consider any other issues relevant to its mandate that it deems necessary.

The mandate of the Finance Committee is to:

- analyse the monthly management accounts and report thereon to the Board;
- report regularly to the Board on the activities of the Committee and identify and make recommendations to the Board on relevant financial issues;
- prepare and monitor financial policies;

REPORT OF THE BOARD OF TRUSTEES *(continued)*

5 Scheme Committees *(continued)*

5.4 Finance Committee *(continued)*

The mandate of the Finance Committee is to: *(continued)*

- review and assess financial performance;
- make recommendations to the Board on financial matters;
- ensure compliance with all relevant legislation; and
- perform any additional duties that may from time to time be delegated to the Committee by the Board.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2019 financial year.

5.5 Audit Committee

The membership, authority and duties of the Audit Committee are governed by terms of reference set by the Board.

The Audit Committee comprises:

Independent Chairman: P Brink	Trustee: G Eloff
Independent: H Kajie	Trustee: M Govender
Independent: B Phillips	

The Committee consists of five members of whom the majority, including the chairman, are independent of the Scheme. Two Trustees are appointed as members of the Committee.

The Principal Officer of the Scheme, the financial manager of the administrator, the external auditor and internal auditor are invited to all Audit Committee meetings and have unrestricted access to the Chairman of the Committee. All other Trustees may attend the meetings in an observer capacity.

The Audit Committee carries out the following functions in accordance with its terms of reference:

- assists the Board in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied by the Scheme or its administrator in the day to day management of its business;
- facilitates and promotes communication and liaises regarding the matters referred to above or related matters between the Board, Principal Officer, administrator, external auditor and internal auditor of the Scheme;
- satisfies itself with the independence of the administrator's internal audit department, reviews the internal audit function, the internal audit plan and audit findings;
- satisfies itself with the independence of the external auditor and reviews its audit plan, audit management letter, audit report and audit fees;
- reviews the annual performance of the external auditor and makes recommendation to the Board for its further consideration and recommendation to the members at the Annual General Meeting;
- satisfies itself with the financial statements in terms of the accounting policies and drafted on the going concern basis and recommends their acceptance to the Board;
- oversees the Scheme's governance processes and risk management and satisfies itself that the Scheme implements an effective policy and plan for risk management;
- satisfies itself that the financial function of the Scheme and the administrator are appropriate, adequately resourced and effective;
- advises the Board on matters referred to the Committee by them; and

5 Scheme Committees *(continued)*

5.5 Audit Committee *(continued)*

The Audit Committee carries out the following functions in accordance with its terms of reference: *(continued)*

- makes recommendations to the Board that arise from carrying out the above functions.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2019 financial year.

5.6 Marketing Committee

The membership, authority and duties of the Marketing Committee are governed by terms of reference set by the Board.

The Marketing Committee comprises:

Chairman: J Cloete
Trustee: M Govender
Trustee: M Duly
Trustee: A Fourie
Trustee: C Norton
Trustee: J Viljoen
Trustee: Dr M Mojapelo-Mokotedi

In terms of the mandate set out below, the committee will make recommendations to the Board on key issues impacting the direction of the Scheme from a commercial, sales channel, public relations and marketing perspective.

The mandate of the Marketing Committee is to:

- review the marketing strategy in line with the overall strategy of the Scheme;
- ensure that the marketing strategy is designed to meet the evolving needs of the Scheme and the macro environment it operates in;
- review performance of the various sales channels to market and the consideration of strategic issues that will ensure optimisation of these sales channels;
- consider strategic new sales channels that will contribute to membership growth;
- review annually the marketing budget in line with the identified strategic marketing imperatives and activities as required;
- review biannually the budget expenditure and activities;
- review the implementation of the marketing strategy including creative execution and media placement in order to ensure alignment to the strategy;
- review strategic market opportunities identified by the technical/marketing consultants in relation to core product, complimentary products and services;
- review the Public Relations strategy of the Scheme annually in the light of the marketing strategy;
- oversee any agreement that pertains to marketing; and
- review the performance of the Marketing and Media agency to contract regularly.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2019 financial year.

REPORT OF THE BOARD OF TRUSTEES *(continued)*

5 Scheme Committees *(continued)*

5.7 Managed Healthcare Committee

The Managed Healthcare Committee comprises:

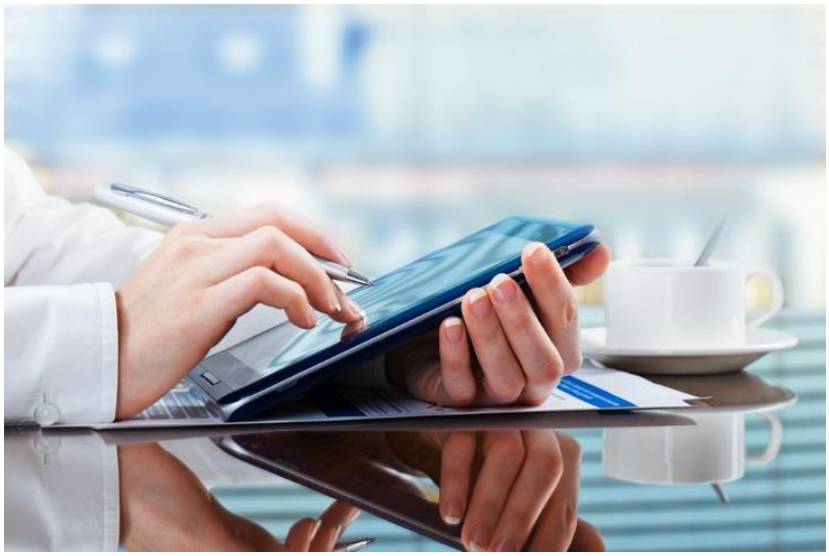
Chairman: Dr M Mojapelo-Mokotedi
Trustee: M Duly
Trustee: A Fourie
Trustee: T Jackson
Trustee: C Norton
Trustee: N Parker
Trustee: D Tretheway

In terms of the mandate set out below, the committee will make recommendations to the Board on the development and implementation of a Clinical Governance Strategy for the Scheme.

The mandate of the Managed Healthcare Committee is to:

- develop, implement, assess and evaluate the execution of the Clinical Governance Strategy and principles of the Scheme;
- review and amend clinical and funding guidelines for the Scheme;
- participate in the option design to ensure that the clinical guidelines are comprehended;
- identify best practices in attending to and resolving disputes;
- participate in option design and provide input into the preparation of member literature to ensure that the rules of the Scheme are clear and unambiguous;
- monitor the quality of healthcare delivered to members of the Scheme;
- monitor the changing healthcare environment and proactively advise the Board on strategic implications for the Scheme; and
- Identify and manage any areas of clinical risk.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2019 financial year.



REPORT OF THE BOARD OF TRUSTEES *(continued)*

5 Scheme Committees *(continued)*

5.8 Board and committee meeting attendance

The following schedule sets out attendance at Board and committee meetings. Related remuneration is disclosed in Note 11.1 to the financial statements.

Board and Committee Members	Board Meetings		Committee Meetings																	
			Finance Committee		Audit Committee		Investment Committee		Marketing Committee		Managed Care Committee		Remune-ration Committee		Operations Committee		Risk and Legal Committee		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
T Jackson (Chairman)	10	10	11	8			4	4			6	6	2	2			4	4	**37**	**34**
M Govender (Vice Chairman)	10	10	11	11	3	3			5	5			2	2			2	2	**33**	**33**
N Byrne (Appointed 1 August 2019)	4	4											1	1			1	0	**6**	5
J Cloete (Re-elected 25 July 2019)	10	8	11	7					5	5					7	4			**33**	**24**
M Duly	10	10							5	5	6	6			7	7			**28**	**28**
G Eloff (Re-elected 25 July 2019)	10	10			3	2	4	4									4	4	**21**	**20**
A Fourie (Appointed 1 August 2019)	4	4							2	2	3	0							**9**	**6**
P Hemus	10	9					4	4					2	2					**16**	**15**
Dr M Mojapelo-Mokotedi	10	10							2	0	6	6							**18**	**16**
C Norton	10	9							5	3	6	5			7	2			**28**	**19**
N Parker (Re-elected 25 July 2019)	10	9									6	6	2	2			4	3	**22**	**20**
D Tretheway (Appointed 1 August 2019)	4	3	4	3			1	1			3	3			2	1	2	2	**16**	**13**
J Viljoen (Appointed 1 August 2019)	4	3							2	1			1	1			2	1	**9**	**6**
Independent: P Brink					3	3													**3**	**3**
Independent: H Kajie					3	2													**3**	**2**
Independent: B Phillips					3	3													**3**	**3**

A: Total meetings convened that could be attended B: Actual number of meetings attended

REPORT OF THE BOARD OF TRUSTEES *(continued)*

6 Scheme Activities at the end of the accounting year

6.1 Operational statistics

	Maxima Plus	Maxima Exec	Maxima Exec Grid	FlexiFed 1	FlexiFed 1 Elect	FlexiFed 2	FlexiFed 2 Grid	FlexiFed 2 Elect	FlexiFed 3	FlexiFed 3 Grid	FlexiFed 3 Elect	Subtotal
2019												
Number of members (n)	1 484	4 146	193	21 400	1 123	5 288	4 711	189	14 962	1 636	140	**55 272**
Number of beneficiaries (n)	2 241	7 069	309	44 534	2 228	11 588	10 285	471	29 428	3 382	309	**111 844**
Number of dependants (n)	757	2 923	116	23 134	1 105	6 300	5 574	282	14 466	1 746	169	**56 572**
Average number of members (n)	1 342	3 791	171	19 055	884	5 145	3 546	169	13 320	1 543	133	**49 099**
Average number of beneficiaries (n)	2 050	6 522	268	40 042	1 795	11 310	7 935	427	26 002	3 178	290	**99 819**
Dependant ratio to members (n)	0.51	0.71	0.60	1.08	0.98	1.19	1.18	1.49	0.97	1.07	1.21	**1.02**
Risk contribution pan of beneficiaries pm (R)	7 109	3 979	3 676	1 130	853	1 476	1 359	1 079	1 874	1 643	1 342	**2 320**
Average age of beneficiaries (yrs)	64.4	58.2	29.2	30.4	29.2	32.3	39.0	32.4	44.7	42.8	41.0	**40.3**
Pensioner ratio (%)	68.7%	58.3%	57.5%	6.7%	4.5%	12.0%	24.9%	7.4%	32.2%	31.1%	25.7%	**29.9%**
Average managed care pan of members pm (R)	119	116	114	103	102	105	105	104	106	106	106	
Average managed care pan of beneficiaries pm (R)	78	67	73	49	50	48	47	41	54	51	49	
Net claims as a percentage of net contributions (%)	106.7%	98.7%	181.6%	72.3%	60.3%	92.9%	82.5%	77.2%	89.8%	101.4%	94.5%	
Relevant healthcare expenditure pan of beneficiaries pm (R)	7 171	3 699	6 409	798	477	1 406	942	872	1 558	1 670	1 563	
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)	104.2%	86.6%	172.9%	77.4%	68.3%	96.5%	88.8%	88.0%	93.1%	107.0%	122.8%	
Non-healthcare expenditure pan of beneficiaries pm (R)	318	284	309	231	229	225	222	193	251	238	223	
Non-healthcare expenditure as a percentage of gross contributions (%)	4.2%	6.1%	7.2%	20.1%	26.4%	15.1%	16.1%	17.7%	13.3%	14.3%	16.4%	
Average chronic profile (%)	59.0%	52.8%	57.0%	8.7%	7.5%	13.2%	17.3%	12.5%	23.5%	26.4%	22.0%	

**pan - per average number ** pm - per month*

6 Scheme Activities at the end of the accounting year *(continued)*

6.1 Operational statistics *(continued)*

	Subtotal Brought Forward	FlexiFed 4	FlexiFed 4 Grid	FlexiFed 4 Elect	MyFed	Grand Total
2019						
Number of members (n)	**55 272**	18 967	837	500	4 239	**79 815**
Number of beneficiaries (n)	**111 844**	36 057	1 796	1 044	6 163	**156 904**
Number of dependants (n)	**56 572**	17 090	959	544	1 924	**77 089**
Average number of members (n)	**49 099**	19 503	829	524	4 660	**74 615**
Average number of beneficiaries (n)	**99 819**	37 487	1 800	1 101	6 755	**146 961**
Dependant ratio to members (n)	**1.02**	0.90	1.15	1.09	0.45	**0.97**
Risk contribution pan of beneficiaries pm (R)	**2 320**	2 412	2 101	1 760	1 048	**1 863**
Average age of beneficiaries (yrs)		47.1	46.5	43.1	36.4	**43.3**
Pensioner ratio (%)		34.0%	37.3%	29.2%	15.9%	**29.1%**
Average managed care pan of members pm (R)		110	109	106	59	**96.0**
Average managed care pan of beneficiaries pm (R)		57	50	50	41	**46.0**
Net claims as a percentage of net contributions (%)		89.1%	89.1%	130.1%	84.7%	**86.0**
Relevant healthcare expenditure pan of beneficiaries pm (R)		2 346	2 009	1 702	1 035	**1 308**
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)		92.8%	94.6%	91.0%	90.1%	**81.0**
Non-healthcare expenditure pan of beneficiaries pm (R)		261	243	225	175	**233.0**
Non-healthcare expenditure as a percentage of gross contributions (%)		10.7%	13.7%	10.6%	16.7%	**14.5**
Average chronic profile (%)		34.7%	40.2%	31.4%	14.0%	**20.4**

**pan - per average number ** pm - per month*

REPORT OF THE BOARD OF TRUSTEES *(continued)*

6 Scheme Activities at the end of the accounting year *(continued)*

6.1 Operational statistics *(continued)*

	Ultimax	Maxima Plus	Maxima Exec	Maxima Standard	Maxima Advance	Maxima Standard Elect	Maxima Basis	Maxima Core	Maxima Saver	Maxima Entry Saver	Maxima Entry Zone	Blue Door Plus	Subtotal
2018													
Number of members (n)	168	1 180	3 992	20 661	2 265	583	5 963	6 984	5 219	13 965	4 300	4 487	**69 767**
Number of beneficiaries (n)	246	1 841	7 035	41 447	3 852	1 239	11 692	13 421	11 487	30 405	8 333	6 911	**137 909**
Number of dependants (n)	78	661	3 043	20 786	1 587	656	5 729	6 437	6 268	16 440	4 033	2 424	**68 142**
Average number of members (n)	176	1 228	4 108	21 340	2 329	596	6 167	7 252	5 214	13 038	4 185	4 312	**69 945**
Average number of beneficiaries (n)	259	1 932	7 267	42 995	3 999	1 265	12 080	1 932	11 451	28 355	8 004	6 510	**126 049**
Dependant ratio to members (n)	0.46	0.56	0.76	1.01	0.70	1.13	0.96	0.92	1.20	1.18	0.94	0.54	**0.98**
Risk contribution pan of beneficiaries pm (R)	8 753	6 352	3 814	2 105	2 878	1 544	1 798	1 769	1 368	1 011	1 127	956	
Average age of beneficiaries (yrs)	66	62	55	42	61	36	39	47	31	28	35	32	
Pensioner ratio (%)	64.6%	55.9%	41.0%	16.9%	51.9%	11.6%	13.6%	27.0%	6.2%	2.7%	8.4%	6.5%	
Average managed care pan of members pm (R)	112	114	112	103	99	102	99	97	94	98	52	53	
Average managed care pan of beneficiaries pm (R)	76	73	63	51	47	59	51	44	43	51	27	1	
Net claims as a percentage of net contributions (%)	90.7%	96.9%	102.6%	87.2%	101.9%	54.0%	83.6%	86.9%	80.5%	71.7%	68.3%	88.3%	
Relevant healthcare expenditure pan of beneficiaries pm (R)	7 899	6 136	3 927	1 858	876	2 937	1 505	1 143	738	1 572	761	872	
Relevant healthcare expenditure as a percentage	84.4%	91.4%	96.1%	73.8%	93.8%	48.2%	73.5%	91.0%	73.3%	64.2%	71.4%	93.3%	
Non-healthcare expenditure pan of beneficiaries	321	307	270	246	224	276	248	222	221	249	161	162	
Non-healthcare expenditure as a percentage of	3.5%	4.6%	6.6%	9.6%	11.9%	8.6%	11.8%	13.8%	18.4%	14.1%	14.3%	17.0%	
Average chronic profile (%)	60.6%	54.3%	46.6%	29.0%	21.6%	39.1%	18.2%	11.3%	6.4%	19.1%	8.1%	7.3%	

**pan - per average number ** pm - per month*

REPORT OF THE BOARD OF TRUSTEES *(continued)*

6 Scheme Activities at the end of the accounting year *(continued)*

6.1 Operational statistics (*continued*)

	Subtotal Brought Forward	Maxima Basis Grid	Maxima Saver Grid	Maxima Core Grid	Grand Total
2018					
Number of members (n)	69 767	517	2 138	386	**72 808**
Number of beneficiaries (n)	137 909	1 095	4 832	718	**144 554**
Number of dependants (n)	68 142	578	2 694	332	**71 746**
Average number of members (n)	69 945	485	1 474	381	**72 285**
Average number of beneficiaries (n)	126 049	1 044	3 307	712	**131 112**
Dependant ratio to members (n)	0.98	0.49	0.51	0.54	**0.99**
Average age of beneficiaries (yrs)		39	38	53	**39**
Pensioner ratio (%)		18.8%	14.5%	36.4%	**15.4%**
Risk contribution per average number of beneficiaries pm (R)		1 557	1 222	1 604	**1 461**
Average managed care per average number of members pm (R)		97	95	98	**96**
Average managed care per average number of beneficiaries pm (R)		45	42	52	**46**
Net claims as a percentage of net contributions (%)		86.3%	66.8%	105.3%	**86.0%**
Relevant healthcare expenditure pan of beneficiaries pm (R)		1 348	874	1 701	**1 308**
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)		75.3%	65.6%	110.8%	**81.0%**
Non-healthcare expenditure pan of beneficiaries pm (R)		224	219	256	**233**
Non-healthcare expenditure as a percentage of gross contributions (%)		12.3%	15.3%	16.0%	**14.5%**
Average chronic profile (%)		24.8%	13.3%	29.5%	**20.4%**

*pan - per average number ** pm - per month

REPORT OF THE BOARD OF TRUSTEES *(continued)*

7 Review of the accounting year's activities

7.1 Operational statistics

	2019	2018
Accumulated funds per member at 31 December (R)	**18 375**	15 338
Amount paid to administrators (R'000)		
- Medscheme administration fees	**261 870**	242 825
- PHA administration fees (winddown fees)	**8 621**	-
- Medscheme managed care programme	**79 788**	72 824
- PHA managed care programme (winddown fees)	**2 788**	-
Broker service fees (R'000)	**66 509**	61 924
Number of principal members joining the Scheme (n) (2019: including 15 808 members from Topmed on amalgamation)	**28 479**	16 794
Number of principal members leaving the Scheme (n)	**21 470**	15 966
Return on investments as a percentage of investments (%) *	**10.60**	5.40

*The returns on investments are calculated monthly and compounded to formulate an annual return.

7.2 Results of operations

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

	2019 R'000	2018 R'000
Members' funds per statement of financial position	**1 487 135**	1 125 955
Less:		
Available-for-sale revaluation reserve (Cumulative net unrealised gains on re-measurement to fair value of financial instruments included in members' funds)	**(20 567)**	(9 192)
Accumulated funds per Regulation 29	**1 466 568**	1 116 763
Gross contributions	**3 376 529**	3 554 438
Accumulated funds ratio (%)	**43.43**	31.42

REPORT OF THE BOARD OF TRUSTEES *(continued)*

7 Review of the accounting year's activities *(continued)*

7.3 Revaluation reserve

Movements in the revaluation reserve are set out in the statement of change in funds and reserve on page 38 of the financial statements. There have been no unusual movements that the Board believes should be brought to the attention of the members of the Scheme.

7.4 Outstanding risk claims provision

The basis of calculation and movements on the outstanding risk claims provision are set out in Note 5 to the financial statements and are consistent with the previous year. There have been no unusual movements that the Board believes should be brought to the attention of the members of the Scheme.

7.5 Deferral of the implementation of IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is effective for annual periods beginning on or after 1 January 2018.

IFRS 4 Insurance Contracts provides a temporary exemption that permits, but does not require, the Scheme to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2021, the effective date of the new IFRS 17 Insurance Contracts.

A scheme may apply the temporary exemption from IFRS 9 if, and only if:

- it has not previously applied any version of IFRS 9
- activities are predominantly connected with insurance, at its reporting date.

The Scheme meets both the criteria and has elected to apply the exemption to defer the application of IFRS 9 to 1 January 2021.

8 Actuarial services

The Scheme actuaries, employed by Medscheme Holdings (Pty) Ltd, during the year were:

A Brownlee, FFA FASSA, January 2019 – April 2019
L Mulaudzi, FASSA, May 2019 – 9 September 2019 and
C Manikai, FASSA, 9 September 2019 – December 2019.

They were consulted in the determination of the contribution and benefit levels for 2019 as well as the outstanding risk claims provision calculation at year-end.

9 Investments in and loans to participating employers of the members or other related parties of the Scheme

The Scheme has investments through portfolios managed by the underlying investment managers in Sanlam, who employs members of the Scheme. The Council has granted the Scheme an exemption in terms of Section 35(8) of the Act. The Scheme holds no other direct investments in, nor has it made loans to, participating employers of the members, or other related parties of the Scheme.

10 Fidelity Insurance

The Scheme has taken out insurance cover as required by the Act, to protect the Scheme against fidelity losses and the Trustees and independent committee members against any professional indemnity claims.

11 Related party transactions

Full details of remuneration and related party transactions are disclosed in Note 11.1 and Note 18 respectively to the financial statements.

REPORT OF THE BOARD OF TRUSTEES *(continued)*

12 Internal audit

A formal internal audit function exists, with regular reporting to the Audit Committee. A structured internal audit plan is provided to the Audit Committee for input and suggestions during the course of the year. This audit plan is also reviewed by the external auditor for reliance on their audit work.

The Scheme receives scheme specific internal audit reports performed by AfroCentric Health Ltd Internal Audit department which are reviewed to ensure sound and accurate administration.

13 Events after the reporting date

The Scheme is aware of the following events after the reporting date:

COVID-19
On 31 December 2019, the World Health Organisation (WHO) China Country Office was informed of cases due to an unknown cause detected in Wuhan City, Hubei Province of China, which was later identified on 7 January 2020 as a novel coronavirus (COVID-19). The first South African case was confirmed on 5 March 2020. The patient was part of a group of 10 people who arrived back from Italy on 1 March 2020 and since then further cases have been confirmed. WHO recently declared COVID-19 a worldwide pandemic.

Fedhealth is on the alert for any emerging risks of this pandemic and will constantly review and align its internal processes and procedures to ensure that Fedhealth members are supported to receive the care they need. The Scheme is in close communication with our network facilities and practitioners and all role-players know how to deal with the various scenarios, in line with the Department of Health guidelines. There are designated hospitals in both the public and private sector where Fedhealth patients can be admitted in line with clearly defined protocols in the event of being faced with identified or potential cases. The Scheme is in further negotiations with pathology and radiology laboratories to ensure that standard operating procedures are clearly defined and that the best rates are negotiated.

The administrator has a task team that is tracking events as they happen and updating operations. Fedhealth can confirm that a positive diagnosis of COVID-19 is a notifiable condition, and that that the Scheme will cover costs for supportive treatment and hospitalisation as Prescribed Minimum Benefits (PMBs), subject to scheme rules (formularies etc.) per option.

Stock Market Crash
Global Stock Markets crashed on 9 March 2020. The markets having fallen further substantially since then. Notable contributing factors include the COVID–19 pandemic and the Russia-Saudi Arabia oil price war.

The Scheme will engage with the Investment Portfolio managers to monitor the effects of this on the Scheme's investments.

REPORT OF THE BOARD OF TRUSTEES *(continued)*

14 Business strategy

2019 was a very challenging year for the Scheme from a claims point of view. Despite a number of interventions to ensure that unnecessary expenditure was avoided, the Scheme experienced significant increases in claims costs. The underlying causes of such increases are difficult to determine but the impact is easy to ascertain. Hospital costs increased by 17% year on year, and while usually it is the utilisation of the number of members being hospitalised that drives increases, this year saw the cost of admission spike.

Claims costs can vary from year to year, similar to the *el Nino* effect on weather, and often, like the weather, there is little one can do about it. But there is a noticeable trend that when the political or economic outlook is gloomy there is an adverse impact on claims. In 2019 there was plenty to feel concerned about: doctors were concerned what National Health Insurance (NHI) would mean for their practices; members in vulnerable employment positions may have considered having procedures in anticipation of being retrenched and consequently without medical aid cover; everyone in the country is stressed and that in itself can have an adverse health impact. On the other hand, like the weather, it may just be cyclical.

Whatever the cause, the impact on the Scheme's results is clear and disconcerting. And for that reason, steps need to be taken to ensure the future sustainability of the Scheme. These steps are never welcome, as they often create a conflict between what treatment a physician would ideally like to provide, and what treatment a fund can sustain. The *raison d'etre* of a medical scheme is to help members defray medical expenses. It does not mean that all and every expense is covered, regardless of the efficacy and outcome of the medical intervention. Medical schemes apply the elements of social solidarity rather than profit making, something many members perhaps don't realise, which means that while the Scheme strives to assist members in their darkest hours, it simply cannot fund everything.

The current pressing issues facing the Scheme are:

Value
For healthy members who join a scheme it is difficult to establish value other to ensure against unforeseen health events. While members who have expensive health conditions may, begrudgingly, appreciate the value of their contributions, younger and healthier members struggle to see why they should continue to pay what is almost the amount of their bond or car repayment on a product that they never use. The whole concept of medical aids is that the young, healthy and wealthy subsidise the older, sicker and poorer. These are subjective standards as it doesn't necessarily follow that all old people are sicker, and younger people are at risk of contracting non-communicable conditions such as diabetes, but the important factor is that if healthier people opt out of medical aid membership it increases the burden on us all. It is vital for us to find means to add to the value of belonging to a medical aid even when healthy, which is why Fedhealth is transforming from a curative hospital care funder to a broader-based wellness and lifestyle organisation.

Innovation
In 2019 several options were renamed as part of the FlexiFed range which included the revolutionary MediVault and Wallet concepts. The thinking behind this was to free members from having to contribute a fixed amount to savings and allow them some latitude to determine what they personally and specifically needed for their day-to-day benefits. The Scheme also broadened the application of what are known in the industry as EDOs, Efficiency Discount Options, through the ELECT and GRID options. EDOs are essentially the same benefit structures per option but by availing oneself of a network hospital provider substantial discounts can be achieved.

While great effort was taken to promote the new structures within the Fedhealth membership base, using a number of different media platforms and mechanisms, many members did not familiarise themselves with the operation of the new benefits, particularly the activation of the MediVault. This led to congestion on the call-centre as members tried to understand the new processes. However during the course of the year members, brokers and healthcare providers became more familiar with the product, resulting in a stabilisation of the service levels.

Many people are still trying to fully understand how the benefit design works, and we are applying the lessons learnt in communicating with members and providers and simplifying some of the processes that are needed to effect the product. We are confident that the product meets a need in our members' lives by giving them greater flexibility of cover and cost and that the innovation will be well received.

REPORT OF THE BOARD OF TRUSTEES *(continued)*

14 Business strategy

Amalgamation

During 2019 Fedhealth and Topmed amalgamated, a process that is never easy for members, providers and administrators. As the amalgamation took place officially on 1 August 2019 there were a number of challenges faced with members' benefits; a Topmed member who had already used their entire medical savings benefit would be faced with a debt of the five months contribution still due towards the utilised amount, while differences in formularies, for instance, meant that some members had to adapt their medication. Both Fedhealth and Topmed management took steps to reduce the disruption but it was inevitable that there would be some unhappiness.

We welcome the Topmed members to the Fedhealth house and hope that they become familiar with the Fedhealth style, with four of the ex-Topmed trustees now serving on the Fedhealth Board. The circumstances leading up to the amalgamation of the two schemes were specific and the Board is not actively contemplating other amalgamation opportunities at this stage.

As a result of the amalgamation Fedhealth's membership increased to 79 815. A natural consequence of any amalgamation is a drop off of membership immediately post the amalgamation, usually due to members' unhappiness at the new structures being imposed on them, but we are confident that the majority of members have settled down into the new structure. The average beneficiary age of the Scheme increased slightly from 39 to 43 mainly as a result of the amalgamation but significant reserves of R435 million were transferred into the Scheme. As a result the reserve ratio of the Scheme increased to 43.8%, which is a comfortable buffer from the required reserve ratio of 25%. Having higher reserves does not unfortunately allow the Scheme to reduce contribution rates, as it has to maintain annual surpluses – however the comfortable reserve margin does mean that less of the contribution rate increase is allocated toward reserve building and maintenance.

Fraud, Waste and Abuse

It turns out that while most providers are concentrating on practicing good medicine, there are a number of providers and members who are trying to make additional income from nefarious activities. Fedhealth has employed forensic services which analyse the data on an empirical basis and which highlight anomalies. These anomalies are then investigated and where medical practices are unable to substantiate some of their claims against the Scheme further investigation takes place. By far, most practices are honest; some practice managers mistakenly use incorrect claiming codes which give rise to discussions on the correct codes, while there is a very small percentage of practices involved in out and out fraud. However it is these practices that are effectively stealing funds from the rest of the membership – your money – and steps must be taken to prevent and curtail it.

Fedhealth is committed to working with all providers to root out fake or unnecessary claims while at the same time minimising disruption to our members. We would be grateful if our members would understand that if we do investigate claims it's not to avoid payment but to ensure that what the Scheme is paying for is reasonable and necessary. We would also appreciate members bringing to our attention claims that seem dubious or unreasonable so that they can be investigated. Many of the cases that we investigate arise from "whistle blower" tip offs, and it is only with the active involvement of our membership that we can reduce the fraud and abuse of benefits that takes place in the Scheme.

NHI and HMI

The debate about the necessity and effectiveness of NHI continues, and while Fedhealth is fully behind the drive to provide UHC (Universal Health Coverage) we motivate that the current NHI dispensation creates more questions than solutions. There is so much uncertainty as to what could be covered that schemes have difficulty preparing for whatever iteration of NHI may present itself. Fedhealth management is constantly monitoring developments in this regard.

The HMI (Health Market Inquiry by the Competition Commission) raised a number of suggestions and opportunities for the private sector to improve efficiency and ultimately cost. If the industry were able to organise itself in the manner suggested by the HMI findings it would indeed be beneficial to all stakeholders. However, that process will involve several law changes, not to mention a change in mind-set, all of which points to years before we see any progress in this regard. Fedhealth has already started engaging with different provider groups to initiate a process to implement some of the findings.

REPORT OF THE BOARD OF TRUSTEES *(continued)*

14 Business strategy *(continued)*

Partnerships

The Scheme's relationship with Sanlam continues to make progress, particularly in the area of adding value to members. A number of exciting developments are being explored that will help members manage their financial health as well as their physical health, and will be announced over the course of the year. The Sanlam partnership adds status to our position in the healthcare environment and increases the opportunities to develop scheme membership and product offering. The alignment of the branding of Fedhealth with Sanlam increases the reach of Fedhealth particularly in the large and well mobilised Sanlam agency force.

Digital strategy

The Scheme will continue with development of digital solutions for communicating with members and allowing members to manage aspects of their relationship with the Scheme. The Fedhealth Family Room, introduced in 2017, has been further enhanced and ongoing development will see more functionality added, particularly allowing members to self-help rather than having to make use of the call centre.

In terms of attracting new members, especially those of the desired age profile, the digital marketing strategy has been very successful, generating a large number of leads. The successes in this space will be built on and the personalisation of the marketing strategy will enable the Scheme to talk to the desired target audience in a manner that appeals directly to them.

REPORT OF THE BOARD OF TRUSTEES *(continued)*

15 Non-compliance matters

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
15.1 Contributions not received within the time stipulated by the Act		
Section 26(7) of the Act states that: "All subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due." Exceptions were found and credit control procedures were applied.	Late payment may result in a loss of interest on these amounts to the Scheme for the number of days that payment is late. This is not significant due to the short duration of the contributions outstanding. Members and employer groups are continuously instructed to submit payment on time.	The Board addresses the issue on an ongoing basis in accordance with the Scheme's credit control policy.
15.2 Claim payments in excess of 30 days		
Section 59(2) of the Act states that: "A medical scheme shall, in the case where an account has been rendered, subject to the provisions of this Act and the rules of the medical scheme concerned, pay to a member or a supplier of service, any benefit owing to that member or supplier of service within 30 days after the day on which the claim in respect of such benefit was received by the medical scheme." Exceptions were found at the beginning of the financial year when claims are put on hold, to ensure that the approved tariff and benefit limits are loaded correctly on the administration platform. This process results in a delay in the processing of payments due to the backlog in claims, but only for a few days.	The delay only occurs at the beginning of the financial year when new tariffs and benefit limits are loaded; claims are paid within the first week of tariff and benefit limit approval. The Scheme is not compliant with the Act and/or its rules when certain valid claims are rejected or amounts due on valid claims are short paid.	The year-end process is not considered to be significant due to the members and providers conforming to the annual practice. The practice ensures accurate claims processing for the new benefit year and is in the interest of the risk management process for the Scheme.
15.3 Loss making options		
Section 33(2) of the Act states that: "The Registrar shall not approve any benefit option under this section unless the Council is satisfied that such benefit options (b) shall be self-supporting in terms of membership and financial performance and (c) is financially sound." Various options made net healthcare deficits as disclosed in Note 16 to the financial statements.	The Council may withdraw benefit options, directly affecting the members on these options.	The Scheme was specifically costed to incur net healthcare deficits on certain options. The Scheme's actuary has taken this into account in costing the benefits for the 2020 financial year.

REPORT OF THE BOARD OF TRUSTEES *(continued)*

15 Non-compliance matters *(continued)*

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
15.4 Prohibition of investments in an employer who participates in the medical scheme or in any administrators		
Section 35(8)(a), (c) and (d) of the Act sets out the prohibition of investments in participating employer and administrators. The Scheme is currently invested in Discovery Holdings Ltd, Liberty Holdings Ltd, Standard Bank Group Ltd, MMI Holdings Ltd, Sanlam Life Insurance Ltd and Sanlam Ltd through portfolios managed by underlying investment managers.	The Scheme is non-compliant with Section 35(8). The Council may require the Scheme to disinvest from these companies.	The Council renewed the exemption, as none of these companies have any influence over the Scheme and the Scheme does not have any influence over these entities in which it holds investments.

T Jackson – Chairman

26 March 2020

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

The Board of Trustees (the Board) is responsible for the preparation, integrity, and fair presentation of the annual financial statements of Fedhealth Medical Scheme (the Scheme). The financial statements presented on pages 36 to 100 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act no. 131 of 1998, as amended (the Act). In addition, the Trustees are responsible for preparing the Report of the Board presented on pages 3 to 29.

The Board:

- considers that in preparing the financial statements it has used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates;
- is satisfied that the information contained in the financial statements fairly presents the results of operations and cash flows for the year and the financial position of the Scheme at year-end;
- 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 financial statements comply with the reporting framework;
- is responsible for such internal controls as the Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management;
- with the assistance of the administrators, ensures that the Scheme operates in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing the business are being controlled.

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

The Scheme's external auditor, KPMG Inc. is responsible for auditing the financial statements in terms of International Standards on Auditing and their report is presented on pages 32 to 35. KPMG Inc. have unrestricted access to all financial records and related data, including minutes of all meetings of members, the Board and committees of the Board. The Board believes that all its representations made to the external auditor during its audit were accurate and appropriate.

The Scheme is committed to the principles and practices of fairness, responsibility, transparency and accountability in all dealings with its stakeholders. The Board members are elected in terms of the rules of the Scheme.

These financial statements, as identified in the first paragraph, were approved by the Board on 26 March 2020 and are signed on its behalf by:

T Jackson - Chairman

M Govender - Trustee

J Yatt – Principal Officer

26 March 2020

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

Board of Trustees

The Board of Trustees (the Board) meets regularly and monitors the performance of the administrators and addresses a range of key issues and ensures that discussion of items of policy, strategy and performance is critical, informed and constructive.

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

Risk management and internal controls

The Board is accountable for the process of risk management and internal controls. Risks are reviewed and identified annually and appropriate strategies are implemented. These actions are monitored monthly.

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

A formal internal audit function exists within the administrator, with regular reporting to the Audit Committee. The administrator of the Scheme has documented and tested the business continuity plan and disaster recovery procedures. The Board is satisfied that the procedures are in place and have been tested.

The Board has established a Risk Committee, mandated under a terms of reference, to oversee all legal, risk and governance issues pertaining to the Scheme in accordance with accepted corporate governance practice.

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

Performance monitoring of budgets

The budget for the Scheme is set annually and approved by the Board. The performance against budget is monitored monthly by the Finance Committee and any corrective action requiring the Board approval is recommended to the Board for appropriate action.

Performance monitoring of terms of reference

Each Committee of the Board has terms of reference which set out the structures and functions of that Committee and are reviewed by the Committee and approved by Board annually.

Performance monitoring of third party Service Level Agreements (SLAs)

The monitoring of SLAs occurs on a monthly basis and is conducted at a Committee level. All SLAs are measured and reported on by the respective committees and any adherence failures are addressed and reported to the Board to implement appropriate action. Should the service level continue to fall below the required SLA, action is taken with the third party and terms are set to ensure that compliance is achieved.

T Jackson – Chairman

M Govender - Trustee

J Yatt – Principal Officer

26 March 2020

KPMG Inc
KPMG Crescent
85 Empire Road, Parktown, 2193,
Private Bag 9, Parkview, 2122, South Africa
Telephone +27 (0)11 647 7111
Fax +27 (0)11 647 8000
Docex 472 Johannesburg
Web http://www.kpmg.co.za

Independent Auditor's Report

To the Members of Fedhealth Medical Scheme

Report on the Financial Statements

Opinion
We have audited the financial statements of Fedhealth Medical Scheme ("the Scheme") set out on pages 36 to 100, which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, the statement of changes in funds and reserve 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 Fedhealth Medical Scheme as at 31 December 2019, 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 sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. 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.

Risk Claims Incurred Refer to Notes 1.9 and 9 to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The most significant expense for the Scheme relates to risk claims incurred. Risk claims incurred is a key driver in determining the sustainability of the Scheme. Due to the significant volume of claims processed by the Scheme, the payment of valid risk claims is dependent on the integrity of the Scheme's administration system, as well as the automated claim assessment controls. Risk claims incurred was considered a key audit matter due to the significant volume of claims processed during the year and the work effort required to be performed by the audit team.	Our audit procedures included the following: • We evaluated the accuracy of benefit limits and rules captured onto the administration system by comparing the approved benefit limits and rules of the Scheme, to those captured onto the administration system. • We tested the IT controls in place to prevent unauthorised access to or changes to the administration system. • We tested, through the assistance of our own IT specialists, the automated claim assessment controls of the administration system to ensure that only valid claims were being processed and paid. • We inspected the reconciliation, performed by the Scheme administrator, between the administration system and the general ledger to assess whether the risk claims paid were accurately captured into the Scheme's accounting system.

Outstanding Risk Claims Provision Refer to Notes 1.4 and 5 to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The outstanding risk claims provision (the provision) is the Scheme's estimate of the ultimate cost of settling all risk claims incurred but not yet reported (IBNR) at the reporting date. The provision is determined by the Scheme's actuary as described in note 5 and is estimated using a range of statistical methods. Determining the provision requires judgement with regard to the assumptions applied in respect of measuring the outstanding risk claims provision which could materially affect the financial statements. Outstanding risk claims provision was considered a key audit matter due to the significant estimation involved in determining the provision.	Our audit procedures performed included the following: • We used our own actuarial specialists and: o evaluated the appropriateness of the methodology used in determining the provision against best practice. o challenged the appropriateness of the assumptions used in the Scheme's methodology for measuring the provision by evaluating the assumptions against best practice and the current economic environment. o evaluated the qualification, competence, independence and integrity of the Scheme's actuary. • We calculated our own estimation of the provision to confirm the reasonability of the Scheme's provision. • We assessed the adequacy of the provision by comparing actual claims paid after year-end that related to the current year to the provision at year-end. • We evaluated whether the disclosures in the financial statements were appropriate in

Outstanding Risk Claims Provision Refer to Notes 1.4 and 5 to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
	accordance with IAS 37, Provisions, contingent liabilities and contingent assets.

Other Information
The Scheme's trustees are responsible for the other information. The other information comprises the Report of the Board of Trustees, the Statement of Responsibility by the Board of Trustees and the Statement of Corporate Governance by the Board of Trustees. 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 skepticism 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.

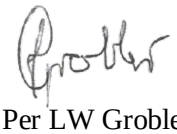
Report on Other Legal and Regulatory Requirements

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

Audit tenure
As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that KPMG Inc. has been the auditor of Fedhealth Medical Scheme for 17 years.

The engagement partner, LW Grobler, has been responsible for Fedhealth Medical Scheme's audit for 4 years.

KPMG Inc.



Per LW Grobler
Chartered Accountant (SA)
Registered Auditor
Associate Director
26 March 2020

STATEMENT OF FINANCIAL POSITION

	Note	2019 R'000	2018 R'000
Assets			
Non-current assets		**1 159 508**	725 866
Available-for-sale investments	2	**1 159 508**	725 866
Current assets		**799 349**	808 210
Trade and other receivables	3	**292 352**	228 574
Cash and cash equivalents	4	**506 997**	579 636
Total assets		**1 958 857**	1 534 076
Funds and liabilities			
Members' funds		**1 487 135**	1 125 955
Accumulated funds		**1 466 568**	1 116 763
Available-for-sale revaluation reserve		**20 567**	9 192
Current liabilities		**471 722**	408 121
Outstanding risk claims provision	5	**209 237**	161 183
PMSA liability*	6	**195 428**	214 155
Trade and other payables	7	**67 057**	32 783
Total funds and liabilities		**1 958 857**	1 534 076

** PMSA: Personal medical savings accounts*

STATEMENT OF COMPREHENSIVE INCOME

	Note	2019 R'000	2018 R'000
Risk contribution income	8	**3 285 572**	3 109 603
Relevant healthcare expenditure		**(3 066 403)**	(2 779 901)
Net claims incurred		**(3 066 813)**	(2 780 354)
Risk claims incurred	9	**(3 075 229)**	(2 787 527)
Third party claim recoveries		**8 416**	7 173
Net income on risk transfer arrangement	10	**410**	453
Risk transfer arrangement premiums paid		**(975)**	(885)
Recoveries from risk transfer arrangement		**1 385**	1 338
Gross healthcare result		**219 169**	329 702
Broker service fees		**(66 509)**	(61 924)
Administration expenditure	11	**(361 013)**	(338 925)
Net impairment loss on healthcare receivables	12	**(17 045)**	(12 329)
Net healthcare result		**(225 398)**	(83 476)
Other income		**155 134**	127 283
Investment income	13	**146 474**	96 051
Sundry income	14	**8 660**	31 232
Other expenditure		**(14 806)**	(12 428)
Asset management fees	15	**(7 747)**	(5 903)
Interest on PMSA liability		**(7 059)**	(6 525)
Net (deficit)/surplus for the year		**(85 070)**	31 379

	Note	R'000	R'000
Other comprehensive income			
Net fair value adjustment on available-for-sale investments	2	**49 046**	(20 868)
Reclassification adjustment of losses/(gains) on disposal of available-for-sale investments*	13	**(37 671)**	422
Total other comprehensive income for the year		**11 375**	(20 446)
Total comprehensive income for the year		**(73 695)**	10 933

** The reclassification adjustment of losses/(gains) on disposal of the available-for-sale investments relates to the sale of investments during the year, which losses/(gains) are taken to the Statement of Comprehensive Income within "Investment income".*

STATEMENT OF CHANGE IN FUNDS AND RESERVE

	Available for-sale-revaluation reserve R'000	Accumulated funds R'000	Members' funds R'000
Balance as at 1 January 2018	29 638	1 085 384	1 115 022
Total comprehensive income for the year			
Net surplus for the year	-	31 379	31 379
Other comprehensive income			
Fair value reserve available-for-sale financial assets			
Net unrealised gains for the year (Note 2)	(20 868)	-	(20 868)
Fair value realised on disposal (Note 13)	422	-	422
Total other comprehensive income	(20 446)	-	(20 446)
Total comprehensive income for the year	(20 446)	31 379	10 933
Balance as at 31 December 2018	9 192	1 116 763	1 125 955
Balance as at 1 January 2019	**9 192**	**1 116 763**	**1 125 955**
Total comprehensive income for the year			
Net deficit for the year	**-**	**(85 070)**	**(85 070)**
Transfer of reserves from other medical schemes (Note 21)	**-**	**434 875**	**434 875**
Other comprehensive income			
Fair value reserve available-for-sale financial assets			
Net unrealised losses for the year (Note 2)	**49 046**	**-**	**49 046**
Fair value realised on disposal (Note 13)	**(37 671)**	**-**	**(37 671)**
Total other comprehensive income	**11 375**	**-**	**11 375**
Total comprehensive income for the year	**11 375**	**349 805**	**361 180**
Balance as at 31 December 2019	**20 567**	**1 466 568**	**1 487 135**

STATEMENT OF CASH FLOWS

	Note	2019 R'000	2018 R'000
Cash flow from operating activities			
Cash flows utilised in operations before working capital changes	17	**(213 572)**	(51 903)
Working capital changes			
Increase in trade and other receivables		**(42 029)**	(178 606)
Decrease in trade and other payables		**(5 417)**	(1 411)
Increase in outstanding risk claims provision		**16 736**	16 254
Decrease in PMSA liability		**(81 938)**	(2 374)
Cash utilised in operations		**(326 220)**	(218 040)
Interest paid on PMSA liability	6	**(7 059)**	(6 525)
Net cash outflow from operating activities		**(333 279)**	(224 565)
Cash flows from investing activities			
Additions to available-for-sale investments	2	**(678 799)**	(793 161)
Available-for-sale investment management fees	2	**6 876**	5 098
Proceeds on disposal of available-for-sale investments	2	**791 138**	632 651
Interest received	13	**79 836**	84 160
Dividends received	13	**28 967**	12 313
Net cash inflow/(outflow) from investing activities		**228 018**	(58 939)
Net decrease in cash and cash equivalents		**(105 261)**	(283 504)
Cash and cash equivalents due to amalgamation	21	**32 622**	-
Cash and cash equivalents at the beginning of the year		**579 636**	863 140
Cash and cash equivalents at the end of the year	**4**	**506 997**	579 636

NOTES TO THE FINANCIALS STATEMENTS

1 Significant accounting policies

The following are the significant accounting policies applied by the Scheme, which are consistent with those of the previous year, except for the adoption of the standards, amendments and interpretations in Note 1.1.1.

1.1 Basis of preparation

The financial statements have been prepared in accordance with the manner required by the Medical Schemes Act no. 131 of 1998, as amended (the Act) and with International Financial Reporting Standards (IFRS). The financial statements are prepared on the going concern principle and using the historical cost basis, except as otherwise stated below in Note 1.2. The financial statement information is presented in South African Rand (Rand), which also represents the Scheme's functional currency. All financial information presented in Rand has been rounded to the nearest thousand except where otherwise indicated.

The preparation of the financial statements, in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Scheme's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 20 to the financial statements.

1.1.1 There were no new standards, amendments and interpretations effective in the 2019 financial year and relevant to the Scheme.

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

The Financial Statements were approved on the 26 March 2020.

Standard	Summary of requirements
IFRS 9 Financial Instruments	On 24 July 2014, the International Accounting Standards Board (IASB) issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This standard will have an impact on the Scheme, which will include changes in the measurement bases of financial assets at amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Scheme. The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted. However, IFRS 4 provides a temporary exemption that permits, but does not require, the Scheme to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2021. A scheme may apply the temporary exemption from IFRS 9 if, and only if: • it has not previously applied any version of IFRS 9 • activities are predominantly connected with insurance, at its reporting date. The Scheme meets both the criteria and has elected to apply the exemption to defer the application of IFRS 9 to 1 January 2021.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1 Significant accounting policies *(continued)*

1.1 Basis of preparation *(continued)*

1.1.2 New standards, amendments and interpretations not yet effective and relevant to the Scheme: *(continued)*

Standard	Summary of requirements
IFRS 17 Insurance Contracts	IFRS 17 supersedes IFRS 4 Insurance Contracts and aims to increase comparability and transparency regarding profitability. The new standard introduces a new comprehensive model ("general model") for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts, such as: • Reinsurance contracts held; • Direct participating contracts; and • Investment contracts with discretionary participation features. Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or other comprehensive income. The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on the Scheme's financial statements. The Scheme is in the process of determining the impact of IFRS 17 and will provide more detailed disclosure on the impact in future financial statements. The standard is effective for annual periods beginning on or after 1 January 2021. Early adoption is permitted.
Definition of Material (Amendments to IAS 1 and IAS 8)	The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework. The changes in the Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The IASB has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments are effective from 1 January 2020 but may be applied earlier. However, IASB does not expect significant changes since the refinements are not intended to alter the concept of materiality

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1 Significant accounting policies *(continued)*

1.1 Basis of preparation *(continued)*

1.1.2 New standards, amendments and interpretations not yet effective and relevant to the Scheme: *(continued)*

Standard	Summary of requirements
Definition of a Business (Amendments to IFRS 3)	Defining a business is important because the financial reporting requirements for the acquisition of a business are different from the requirements for the purchase of a group of assets that does not constitute a business. The proposed amendments are intended to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3. In October 2018 the IASB issued this amendment to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments: • Confirm that a business must include inputs and a process, and clarified that: (i) the process must be substantive and (ii) the inputs and process must together significantly contribute to creating outputs. • Narrow the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and • Add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1 Significant accounting policies *(continued)*

1.2 Financial instruments

Financial assets and liabilities are recognised on the Scheme's statement of financial position when it becomes a party to the contractual provisions of the instrument. The Scheme classifies its financial instruments into the following categories: available-for-sale financial assets, loans and receivables and other liabilities. The classification depends on the nature and the purpose of the financial instruments and is determined at the time of initial recognition.

Measurement

Financial instruments are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these instruments are measured as set out below.

Available-for-sale investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs in liquidity or changes in market conditions, are classified as available-for-sale. These are included in non-current assets unless the Trustees have the express intention of holding the investment for less than 12 months from reporting date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

All purchases and sales of investments are recognised on the trade date, which is the date that the Scheme commits to purchase or sell the asset. Available-for-sale investments are subsequently measured at fair value. Unrealised gains and losses arising from changes in the fair value of the available-for-sale investments are recognised in other comprehensive income and included in the available-for-sale revaluation reserve in members' funds. These are not taken to profit or loss. When securities categorised as available-for-sale are sold or impaired, the fair value adjustments previously accumulated in members' funds, are recognised in profit or loss as net realised gains or losses on disposal or impairments of investments. The fair values of listed investments are based on current closing prices.

Loans and other receivables

The Scheme's loans and other receivables comprise trade and other receivables and cash and cash equivalents.

Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost, using the effective interest method less impairment. An appropriate impairment for estimated irrecoverable amounts is recognised in profit or loss when there is objective evidence that the asset is impaired. This impairment is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairments are written off to profit or loss as follows:

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

Insurance receivables

Insurance receivables are carried at cost less accumulated impairment losses. Impairment losses on insurance receivables are recognised and determined in a similar manner to impairment on financial assets carried at amortised cost. Refer to Note 1.15.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1 Significant accounting policies *(continued)*

1.2 Financial instruments *(continued)*

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Cash and cash equivalents are carried at amortised cost.

Financial liabilities

Financial liabilities consist of trade and other payables.

Trade and other payables

Trade and other payables are subsequently measured at amortised cost using the effective interest method.

Insurance payables

Insurance payables are subsequently measured at amortised cost using the effective interest method.

Offsetting financial instruments

Where a legally enforceable right to offset exists for the recognised financial assets and financial liabilities and there is a current 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 a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Scheme neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Scheme recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Where the risks and rewards of ownership of the financial asset are substantially retained, the financial asset continues to be recognised.

The Scheme derecognises a financial liability when the contractual obligation is discharged or expires.

1.3 Personal medical savings accounts (PMSA) liability

The PMSA liability is managed by the Scheme on behalf of its members. It represents PMSA contributions, which are a deposit component of the medical insurance contracts and accrued interest thereon, net of any PMSA claims paid on behalf of members in terms of the Scheme's rules. The deposit component has been unbundled since the Scheme can measure the deposit component separately and its accounting policies do not otherwise require it to recognise all obligations and rights arising from the deposit component. The insurance component is recognised as an insurance liability.

Member unused savings at year-end are retained in the members' PMSA. In terms of the Act, balances standing to the credit of members are refundable only in terms of Regulation 10 of the Act.

Advances on PMSA contributions are funded from the Scheme's funds, and the risk of impairment is carried by the Scheme.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1 Significant accounting policies *(continued)*

1.3 Personal medical savings accounts (PMSA) liability *(continued)*

The PMSA liability, i.e. deposit component, is recognised in accordance with IAS 39 Financial Instruments: Recognition and Measurement and is initially measured at fair value (i.e. the amount payable on demand) as it has a demand feature and subsequently is measured at amortised cost.

PMSA contributions are credited on the accrual basis and withdrawals on a cash basis, i.e. no provision is made for outstanding claims at year-end.

1.4 Provisions

Provisions are recognised when the Scheme has a present legal or constructive 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. The expected future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Outstanding risk claims provision

The outstanding risk claims provision is a provision made for the estimated cost of healthcare benefits that have been incurred before the end of the accounting period but that have not been reported to the medical scheme by that date. Risk claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the nature and number of members according to gender and age, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim.

Estimated payments from PMSA are deducted in calculating the outstanding risk claims provision. The Scheme does not discount its provision for outstanding risk claims, as the effect of the time value of money is not considered material.

1.5 Medical insurance contracts

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

1.6 Risk 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 gross contributions after deduction of PMSA 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 fees and other similar costs.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1 Significant accounting policies *(continued)*

1.7 Reimbursements from the Road Accident Fund (the RAF)

The Scheme grants assistance to its members in defraying expenditure incurred in connection with the 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 No. 56 of 1996. If the members are reimbursed by the RAF, they are contractually obliged to cede that payment to the Scheme to the extent that they have already been compensated.

A reimbursement from the RAF is a possible asset that arises from claims 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 contingent asset and the related income are recognised in the financial statements in the period in which the virtual certainty occurs.

1.8 Relevant healthcare expenditure

Relevant healthcare expenditure consists of net risk claims incurred, net income or expense from risk transfer arrangements and accredited managed care services as per Circular 56 of 2015.

1.9 Risk claims incurred

Risk claims incurred comprise the total estimated cost of all claims arising (excluding claims paid out of PMSA) 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 are risk claims paid and reported adjusted by the outstanding risk claims provision at the beginning and end of the accounting period (excluding claims paid out of PMSA and Wallet). Net risk claims incurred include recoveries from third parties such as the RAF. Circular 56 of 2015 issued by the Council for Medical Schemes on 9 September 2015 concluded that all accredited managed care services are included as part of relevant healthcare expenditure as they directly impact on the delivery of cost-effective and appropriate healthcare management services to beneficiaries of medical schemes.

1.10 Risk transfer arrangement

A risk transfer arrangement is a contractual agreement whereby a third party undertakes to indemnify the Scheme against all or part of the loss that the Scheme may incur as a result of carrying on the business of a medical scheme.

Risk transfer premiums/fees are recognised as an expense over the indemnity period on a straight-line basis. If applicable, a portion of risk transfer premiums/fees are treated as prepayments.

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

Only contracts that give rise to a significant transfer of insurance risk are accounted for as re-insurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim.

Claims recoveries relating to risk transfer arrangement is calculated on the basis as defined in Note 10.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1 Significant accounting policies *(continued)*

1.10 Risk transfer arrangement *(continued)*

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

1.11 Managed care: management services

These expenses represent the amounts paid or payable to non-accredited third party administrators, related parties and other third parties for managing the utilisation, costs and quality of healthcare services to the Scheme. These fees are expensed as incurred and are reported in Note 9 of the administration expenditure as defined in Circular 56 of 2015.

1.12 Liabilities and related assets under liability adequacy test

At the reporting 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 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 the Scheme recognises the deficiency in profit or loss for the year.

1.13 Investment income

Investment income comprises dividends, interest on cash and cash equivalents, interest on fixed interest securities and realised gains or losses on available-for-sale investments.

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

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

Realised gains or losses on disposal of available-for-sale investments are recognised in profit or loss as investment income.

1.14 Interest paid on PMSA

The interest paid on PMSA is recognised in profit or loss according to the effective interest method, net of related costs.

1.15 Impairment losses

Financial assets

The carrying amounts of the Scheme's assets are reviewed at each reporting date to determine whether there is any indication of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset. If any such indication exists, the asset's recoverable amount is estimated.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1 Significant accounting policies *(continued)*

1.15 Impairment losses *(continued)*

An impairment loss in respect of an available-for-sale investment is calculated by reference to its fair value. When a decline in the fair value of an available-for-sale investment has been recognised in other comprehensive income and accumulated in the available-for-sale revaluation reserve and there is objective evidence that the asset is impaired, the cumulative loss that had been accumulated in the available-for-sale revaluation reserve is reclassified to profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that investment previously recognised in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an impairment account against loans and receivables. Interest on the impaired asset continues to be recognised.

Reversals of impairments

Impairment losses in respect of financial assets are reversed if the subsequent decrease in an impairment loss can be related objectively to an event occurring after an impairment loss was recognised or as a result of a change in the estimates used to determine the recoverable amount.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. The impairment loss is reversed, with the amount of the reversal recognised in other comprehensive income. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after an impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

An impairment reversal in respect of a receivable carried at amortised cost is recognised in profit or loss.

1.16 Amalgamation with other medical schemes by acquisition

The Scheme amalgamation is accounted for by applying the acquisition method.

The cost of an amalgamation is measured as the fair value of the assets transferred and liabilities incurred or assumed at the date of exchange.

When an entity is amalgamated into the Scheme, all identifiable assets, liabilities and members' funds are accounted for at their fair values at the acquisition date. No consideration is paid for these transactions and they are recognised as from the transaction date.

The Scheme recognises the net assets from amalgamated schemes as a direct addition to reserves in its Statement of Change in Funds and Reserve.

Section 63(14) of the Act prescribes that relevant assets and liabilities of the party effecting the transfer shall vest in and become binding upon the party to which transfer is affected.

No goodwill is recognised on the amalgamation of other schemes by acquisition.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1 Significant accounting policies *(continued)*

1.17 Allocation of income and expenditure to benefit options

The following items of income and expenditure are directly incurred by the Scheme's benefit options:

- Risk contribution income;
- Risk claims incurred;
- Risk transfer arrangement fees;
- Managed care: management services;
- Administration fees;
- Broker fees; and
- Impairment and recoveries on receivables.

The remaining items are apportioned based on the number of members on each option:

- Other administration expenditure;
- Investment income;
- Winding-down costs;
- Sundry income; and
- Asset management fees.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2 Available-for-sale investments	2019 R'000	2018 R'000
Acquisition cost	**716 674**	561 683
Unrealised gain on revaluation	**9 192**	29 639
Fair value at the beginning of the year	**725 866**	591 322
Additions to investments Fedhealth	**678 799**	793 161
Additions from amalgamation	**503 811**	-
Investment management fees	**(6 876)**	(5 098)
Disposal at fair value at date of sale	**(791 138)**	(632 651)
Net unrealised gains/(losses) for the year	**49 046**	(20 868)
Fair value at the end of the year	**1 159 508**	725 866
The investments included above represent investments in:		
Unlisted debentures	**10 231**	16 488
Listed equities	**589 957**	258 136
Listed fixed interest bonds	**462 754**	396 552
Listed investment property funds	**96 566**	54 690
	1 159 508	725 866

The fair values of the publicly traded financial instruments are based on listed closing prices as at the reporting date. A register of investments is available for inspection at the registered office of the Scheme. Information regarding the exposure to credit and market risks, and fair value measurement, is included in Note 23.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3 Trade and other receivables	2019 R'000	2018 R'000
Insurance receivables		
Contributions receivable	**200 135**	218 275
Members co-payments receivable	**13 383**	13 540
Provider debts receivable	**2 931**	1 748
Financial receivables		
Advances on PMSA (Note 6)	**9 577**	1 065
Loans and receivables		
Aid for Aids	**8**	3
Amounts owing by the administrator	**-**	2 265
Hospital Discount	**19 805**	-
Investment income receivable	**551**	5 553
Loans to members (other)	**27**	-
Loans to members (MediVault)	**70 459**	-
RAF recovery	**130**	-
Sundry debtors	**34**	-
	317 040	242 449
Insurance receivables		
Less: Impairment losses	**(24 688)**	(13 875)
Balance at the beginning of the year	**(13 875)**	(7 653)
Amounts utilised during the year	**8 098**	7 171
Net movement in impairment (Note 12)	**(18 911)**	(13 393)
Balance at the end of the year	**292 352**	228 574
Topmed insurance receivables at year end included in above totals		
Contributions receivable	**100**	-
Members co-payments receivable	**3**	-
Provider debts receivable	**25**	-
Advances on PMSA	**8 218**	-
Less impairment for Advances on PMSA	**(5 588)**	-
	2 757	-

The carrying amounts of financial receivables approximate their fair values due to the short-term maturities of these assets. The estimated future cash flow receipts have not been discounted as the effect would be immaterial.

Loans to Members – MediVault (Debtor) transferred to Wallet (Creditor)

The FlexiFed options gives members access to an interest-free loan facility called the MediVault Benefit. The amount allocated can be used to pay for day-to-day medical expenses and is based on the member's selected option and family composition. These funds are not pro-rated based on the member's join date and can be accessed at any time during the year. To access these funds the member is required to accept the terms and conditions before transferring an amount, in full upfront, or in part as needed in their Wallet account. The member only has to pay back the money transferred from the MediVault to the Wallet account – interest free over a period of twelve (12) months. Day-to-day benefit claims are funded from available savings, thereafter the member's Wallet account if activated, or self-funded. Refer to Note 21 for Topmed balances taken over.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4 Cash and cash equivalents - Medical Scheme assets	2019 R'000	2018 R'000
Call accounts	**85 878**	60 479
Current accounts	**14 081**	37 637
Fixed deposits	**-**	80 000
Money market investments	**407 038**	401 520
Balance at the end of the year	**506 997**	579 636

The weighted average effective interest rate on cash and cash equivalents was 6.9% (2018: 6.9%). Call accounts have an average maturity of one day (2018: one day). The return on money market investments is benchmarked against the STeFi. Refer to page 91 for performance comparison.

The fair values of cash and cash equivalents approximate the carrying amount as these are short-term in nature.

5 Outstanding risk claims provision	2019 R'000	2018 R'000
Not covered by risk transfer arrangements		
Provision for outstanding risk claims - Incurred but not reported (IBNR)	**209 237**	161 183
Analysis of movement in outstanding risk claims		
Balance at beginning of the year	**161 183**	144 930
Payments in respect of the previous year	**(158 059)**	(167 126)
Over/(under) provision in the previous year (Note 9)	**3 124**	(22 196)
Adjustment for the current year (Note 9)	**206 113**	183 379
Balance at the end of the year	**209 237**	161 183
Analysis of outstanding risk claims provision		
Estimated gross claims	**220 427**	186 440
Less: Estimated recoveries from PMSA	**(11 190)**	(25 257)
Balance at the end of the year	**209 237**	161 183

5 Outstanding risk claims provision *(continued)*

Process used to determine the assumptions

The provision is calculated as expected ultimate claims less the actual claims paid and accrued as at the year-end. For year-end purposes, the expected ultimate claims are estimated by considering the actual risk claims paid as at 20 March 2020 in respect of the 2019 financial year, and extrapolating these paid claims to 30 April 2020 (four months after the end of the financial year, corresponding to the maximum period of time, of four months, during which claims have to be notified to the Scheme as per the Scheme's rules). The percentage of the estimated total risk claims in respect of the 2019 financial year paid by 20 March 2020 was 82.6% (2018: 26 March 2019: 79.75%).

The cost of outstanding risk claims is estimated using a range of statistical methods. Such methods extrapolate the trends of paid and incurred claims, average cost per risk claims and ultimate risk claim numbers for each benefit year based upon observed trends of earlier years and expected risk claims ratios. Run-off triangles are used in situations where it takes time after the treatment date until the full extent of the risk claims to be paid is known. It is assumed that payments will be made in a similar pattern for each service month.

The actual method or blend of methods used varies by benefit year considered, categories of risk claims and observed historical risk claims trends. To the extent that these methods use historical risk claims trends information they assume that the historical risk claims trends 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 pattern/recording of risk claims paid and incurred;
- economic, legal, political and social trends (resulting in different than expected levels of inflation and/or minimum medical benefits to be provided);
- changes in composition of membership and their dependants' profiles; and
- random fluctuations, including the impact of large losses.

Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding risk claims provision are the previous years' experience in claims processing patterns and the average risk claims paid in the run-off period each year based on historical trends. These are used for assessing the outstanding risk claims provision.

Changes in assumptions and sensitivities to changes in key variables

The Scheme believes that the liability for risk claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables which could differ when the risk claims arise.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5 Outstanding risk claims provision *(continued)*

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

The table below outlines the sensitivity of the provision for outstanding risk claims to movement in the significant key variables and assumptions.

	Increase in variable %	Change in liability 2019 R'000	Change in liability 2018 R'000
Risk claims processing patterns	**10**	**20 924**	16 118

Effect on accumulated funds ratio and accumulated funds:

Accumulated funds ratio		%	%
Accumulated funds ratio as at 31 December		**43.43**	31.42
Movement due to 10% increase in claims processing pattern		**0.62**	0.45

Accumulated funds		R'000	R'000
Accumulated funds as at 31 December		**1 466 568**	1 116 763
Movement due to 10% increase in claims processing pattern		**20 924**	16 118

Liability adequacy test

The test is required to ensure that the measurement of the Scheme's insurance liabilities considers all contractual cash flows, using current estimates.

The Scheme has no deferred acquisition costs or related intangible assets. In determining the insurance liability, the Scheme has determined, using current estimates, contractual cash flows arising from claims with a service date prior to year-end (reporting date) that will only be presented for payment after date of signature. The considerations for this calculation have been considered under this provision. There are no embedded options or guarantees in the Scheme. The Scheme has also not entered into reinsurance contracts. Having regard for the above, no shortfall has been identified when considering the measurement of the Scheme's insurance liabilities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

6 Personal medical savings accounts (PMSA)

PMSA liability	2019 R'000	2018 R'000
Balance of PMSA liability at the beginning of the year	**215 220**	217 311
Advances on PMSA	**(1 065)**	(782)
Net balance on PMSA liability at the beginning of the year	**214 155**	216 529
PMSA contributions received (Note 8)	**90 957**	444 835
PMSA liability from amalgamation*	**41 632**	-
Interest on PMSA monies (Note 17)	**7 059**	6 525
Net transfer from other schemes in terms of Regulation 10(4)	**1 610**	1 344
Claims paid on behalf of members (Note 9)	**(159 482)**	(423 927)
Refunds on death or resignation in terms of Regulation 10(4)	**(6 395)**	(4 103)
Prescribed credit write back of unclaimed savings (Note 14)	**(2 620)**	(27 331)
Prior year advances recovered during the year	**(1 065)**	(782)
Advances on PMSA (Note 3)	**9 577**	1 065
Balance at the end of the year	**195 428**	214 155
***Topmed PMSA liability:**		
- PMSA liability as at 31 July 2019 (Note 21)	**63 211**	-
- Less advance raising on PMSA (Note 21)	**(21 579)**	-
At the end of the period	**41 632**	-
Balance of PMSA liability:		
- for active members	**176 659**	203 130
- due to ex-members	**18 769**	11 025
At the end of the year	**195 428**	214 155

The PMSA liability contains a demand feature in terms of Regulation 10(4) of the Act that any credit balance on a member's PMSA must be refunded to the member when the member's membership is terminated, only if the member does not belong to another medical scheme with a PMSA benefit option, in which case the funds are paid over to the savings benefit option of that scheme.

The carrying amount of the members' PMSA trust liability approximates its fair value as it is of a short-term nature.

Interest is paid on the PMSA monthly, at a fixed interest rate for 2019 was 4% (2018: 4%). No interest is charged on advances for PMSA.

Prescribed unclaimed credit balances of terminated members were written back to the Scheme income in 2019 to the value of R2.6m (2018: R27.3m).

It is estimated that the claims to be paid out of the members' PMSA monies in respect of claims incurred in 2019 but not refunded by 31 December 2019 amounted to R18.8m (2018: R25.3m). Advance PMSA liability claims are funded by the Scheme and are included in trade and other receivables.

Advances on PMSA trust liability claims are funded by the Scheme and are included in trade and other receivables (Note 3).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

7 Trade and other payables	2019 R'000	2018 R'000
Insurance liabilities		
Reported risk claims not yet paid	**18 487**	26 201
Risk contributions received in advance	**6 274**	2 738
Total arising from insurance liabilities	**24 761**	28 939
Financial liabilities		
Accrual for investment management fee	**31**	46
Unknown deposits	**174**	10
Amounts owing to administrator	**625**	560
Provision for Topmed audit fees	**1 047**	-
Other payables and accrued expenses	**3 880**	3 228
Member loan creditor (Wallet)	**36 539**	-
Total arising from financial liabilities	**42 296**	3 844
Balance at the end of the year	**67 057**	32 783

The carrying amounts of financial liabilities approximate their fair value due to the short-term maturities of these liabilities.

Reported risk claims not yet paid:		
Balance at the beginning of the year	**26 201**	29 465
Movement during the year	**(7 714)**	(3 264)
Balance at the end of the year	**18 487**	26 201

Reported risk claims not yet paid constitute risk claims that have been received and processed for payment. These risk claims have been accounted for in the relevant healthcare expenditure for the current financial period. Payment of these risk claims will only occur in subsequent periods.

The Scheme's exposure to liquidity risk related to trade and other payables is disclosed in Note 23.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

8 Risk contribution income	2019 R'000	2018 R'000
Gross contributions	**3 376 529**	3 554 438
Less: PMSA contributions received (Note 6)	**(90 957)**	(444 835)
Risk contribution income	**3 285 572**	3 109 603

The PMSA contributions are received by the Scheme in terms of Regulation 10(1) of the Act and the Scheme's rules.

9 Risk claims incurred	2019 R'000	2018 R'000
Current year claims	**2 932 401**	2 968 159
Claims not covered by risk transfer arrangement	**2 931 016**	2 966 821
Claims covered by risk transfer arrangement	**1 385**	1 338
Outstanding risk claims provision	**209 237**	161 183
Over/(under) provision in the previous year (Note 5)	**3 124**	(22 196)
Adjustment for the current year (Note 5)	**206 113**	183 379
Managed care: accredited management services	**93 073**	82 112
Claims paid from PMSA on behalf of members (Note 6)	**(159 482)**	(423 927)
Risk claims incurred	**3 075 229**	2 787 527
Managed care: accredited management services		
Hospital benefit management	**39 714**	34 437
Pharmaceutical benefit management	**15 772**	13 764
Healthcare professional risk management (networks)	**10 560**	9 347
Disease management	**16 892**	15 276
Managed care programme	**82 938**	72 824
Managed care programme: Aid for Aids Management (Pty) Ltd	**10 135**	9 288
	93 073	82 112
Managed care services paid to administrators		
Managed care programme: Medscheme (Note 18)	**79 787**	72 824
Managed care programme: PHA (winddown fees)	**2 788**	-
	82 575	72 824

The managed care fee is charged as a composite fee based on an estimated allocation by the managed care organisation and the above allocation is based on that organisation's estimated cost of the services provided.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

10 Net income on risk transfer arrangement	2019 R'000	2018 R'000
Iso Leso Optics Ltd (Iso Leso)		
Risk transfer arrangement premiums paid	**(975)**	(885)
Recovery from risk transfer arrangement	**1 385**	1 338
	410	453

The Scheme has a capitation agreement with Iso Leso. Its primary objective is to manage eye care so that medical scheme benefits are well designed and sufficient to meet the clinical needs of the patient. Iso Leso provides comprehensive eye examinations screening for glaucoma and single vision and bifocal spectacles for MyFed beneficiaries.

These costs are estimates only and are calculated as follows:

- Iso Leso provides the Scheme with a report reflecting underlying claims information relating to optometry services covered by the risk transfer arrangement.
- Iso Leso provides the average number of visits per annum to an optometrist. The Scheme has applied the Scheme tariff to these to determine the total cost.
- The contract is renewable bi-annually and the capitation fee is based on the number of enrolled beneficiaries in the MyFed option.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11 Administration expenditure	2019 R'000	2018 R'000
Administration fees	**270 491**	242 825
– Medscheme	**261 870**	242 825
– PHA (winddown fees)	**8 621**	-
Advertising	**59 916**	67 921
Amalgamation expenses (Note 21)	**176**	-
Audit Committee costs (Note 11.1)	**156**	147
Audit fees	**1 159**	1 027
– in respect of the current year	**307**	210
– in respect of the previous year	**852**	817
Bank charges	**1 897**	1 501
Board of Healthcare Funders: Practice Code Numbering System (PCNS)	**159**	149
Conference fees	**140**	97
Consulting fees	**2 307**	2 165
Debt collection fee	**150**	50
Fidelity guarantee premium	**300**	300
Insurance Fraud Management	**2 919**	2 712
Health Funders Association	**259**	240
Independent Counselling and Advisory Service (ICAS)	**-**	25
Legal fees	**970**	120
Maternity Programme	**370**	1 891
Meeting expenses	**99**	65
Metrofile	**6**	-
Office rental	**-**	34
Principal Officer's fees	**3 309**	2 841
Principal Officer's remuneration	**3 166**	2 729
Principal Officer's expenses	**143**	112
Printing and photocopying	**1 959**	1 920
RAF recovery fees	**4 493**	4 578
Registrar's levies	**2 818**	2 627
Salaries and reimbursements	**1 693**	1 732
Strategic projects	**287**	-
Total Board Members' remuneration	**4 980**	3 958
– fees for holding of office (Note 11.1)	**4 544**	3 727
– travel and accommodation (Note 11.1)	**436**	231
Balance at the end of the year	**361 013**	338 925

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11.1 Administration expenditure *(continued)*

Remuneration and expenses of the Board Members and Audit Committee	Fees for holding office	Travel and Accomo-dation	Audit Committee meeting fees	Total fees and Expenses	Fees for holding office	Travel and Accomo-dation	Audit Committee meeting fees	Total fees and Expenses
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
	2019				2018			
N Byrne	166	40	-	**206**	-	-	-	**-**
J Cloete	388	-	-	**388**	373	-	-	**373**
M Duly	388	13	-	**401**	373	7	-	**380**
G Eloff	388	46	-	**434**	373	25	-	**398**
A Fourie	166	28		**194**	-	-	-	**-**
M Govender	388	-	-	**388**	373	-	-	**373**
P Hemus	388	73	-	**461**	373	56	-	**429**
T Jackson	776	73	-	**849**	532	50	-	**582**
Dr M Mojapelo-Mokotedi	388	32	-	**420**	373	13	-	**386**
C Norton	388	40	-	**428**	373	40	-	**413**
N Parker	388	48	-	**436**	584	40	-	**624**
D Tretheway	166	33	-	**199**	-	-	-	**-**
J Viljoen	166	10	-	**176**	-	-	-	**-**
Board Member Costs	**4 544**	**436**	**-**	**4 980**	**3 727**	**231**	**-**	**3 958**
Independent: P Brink	-	-	67	**67**	-	-	62	**62**
Independent: H Kajie	-	11	33	**44**	-	11	32	**43**
Independent: B Phillips	-	-	45	**45**	-	-	42	**42**
Audit Committee Costs	**-**	**11**	**145**	**156**	**-**	**11**	**136**	**147**
Total	**4 544**	**447**	**145**	**5 136**	**3 727**	**241**	**136**	**4 105**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

12 Net impairment loss on healthcare receivables	2019 R'000	2018 R'000
Trade and other receivables		
Contributions not recoverable	**(1 118)**	(2 765)
- Increase in impairment	**(701)**	(2 104)
- Impairment recognised directly in profit or loss	**(417)**	(661)
Members' and service providers' portions not recoverable	**(12 659)**	(10 826)
- Increase in impairment	**(5 079)**	(4 338)
- Impairment recognised directly in profit or loss	**(7 580)**	(6 488)
PMSA advances not recoverable	**(2 405)**	198
- (Increase)/decrease in impairment	**(2 405)**	198
Loans to members (MediVault) not recoverable	**(2 729)**	-
- Increase in impairment	**(2 729)**	-
Net movement in impairment (Note 3)	**(18 911)**	(13 393)
Previous impairment losses recovered	**1 866**	1 064
Balance as at the end of the year	**(17 045)**	(12 329)

13 Investment income	2019 R'000	2018 R'000
Net fair value realised on disposal (Note 17)	**37 671**	(422)
Realised gains from available-for-sale investments	**114 743**	79 937
Realised losses from available-for-sale investments	**(77 072)**	(80 359)
Dividends received	**28 967**	12 313
Interest received	**79 836**	84 160
Interest received on investments: Medical Scheme	**66 848**	58 182
Interest income from cash and cash equivalents: Medical Scheme	**12 988**	25 978
Balance at the end of the year	**146 474**	96 051

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

14 Sundry income	2019 R'000	2018 R'000
Sundry income	**12**	18
Prescribed credit write back of unclaimed savings (Note 6)	**2 620**	27 331
Administration penalty	**2 895**	-
Fraud recoveries	**3 133**	3 883
Balance at the end of the year	**8 660**	31 232

15 Asset management fees	2019 R'000	2018 R'000
Investment management fees	**6 876**	5 037
Investment expenses	**271**	198
Cash management fees	**600**	668
Balance at the end of the year	**7 747**	5 903

16 Operations per benefit option

Benefit design of the Scheme

The Scheme provides three product ranges and a low cost option, MyFed. The product ranges caters for market segments at different life stages from comprehensive options, MaxiFed (Maxima Plus, Maxima Exec and Maxima Exec GRID for conservative and sicker members to discounted options, FlexiFed (11 options), for young and healthy members. The more comprehensive options have higher benefit limits, lower co-payments and better day-to-day benefits. The ELECT and GRID options are efficiency discount options (EDO), which contain the same level of benefits as the main options at a discounted contribution rate. For these options medical services should be obtained from the Scheme Networks.

MaxiFED Options

The MaxiFED options generally provide more comprehensive in-hospital benefits than the FlexiFED options, with virtually no deductibles and more generous limits on certain procedures. The MaxiFED options also cover more chronic diseases than the FlexiFED options.

MaximaPLUS provides for the richest benefits in this range. This option has a medical savings account (savings), as well as a safety net (threshold) benefit. It also provides for day-to-day benefits from OHEB (out-of-hospital expense benefit) risk pool after member used up their savings.

FlexiFED options

All the options in the FlexiFED options have co-payments on a number of in-hospital procedures. In-hospital limits differ by option, with the limits reducing across the options. The same also applies to the MediVault benefits. Chronic medicine is limited to Chronic Disease List (CDL) only for FlexiFED1 and FlexiFED2 (including EDOs). These options provide for a small medical savings account and a MediVault account that can be activated by the member. The ELECT and GRID options have hospital networks.

MyFed

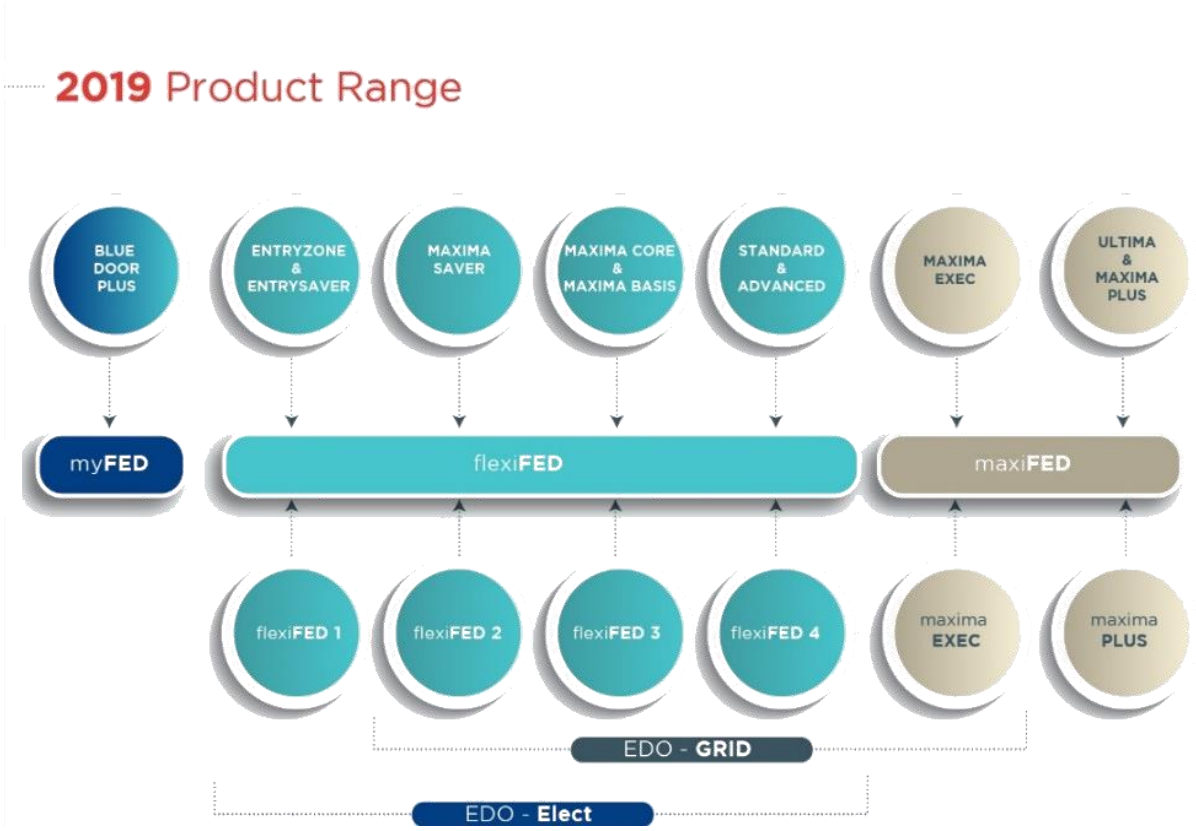
The MyFed option is structured differently from the options in the MaxiFED and FlexiFED options. It does not provide for any OHEB, savings or threshold benefits. Rather, day-to-day benefits are specified with individual limits on benefits. All day-to-day benefits, except dental benefits, can only be accessed after referral by a contracted General Practitioner (GP). The GP is used as the gatekeeper and coordinator of all care, with the exception of dental benefits. All in-hospital limits are also significantly lower than on the MaxiFED or FlexiFED options and the option has a hospital network.

Refer to option mapping diagram on next page.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16 Operations per benefit option *(continued)*

Diagram of option mapping from 2018 to 2019 product range:



NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16 Operations per benefit option *(continued)*	FlexiFed 1 R'000	FlexiFed 1 Elect R'000	FlexiFed 2 R'000	FlexiFed 2 Grid R'000	FlexiFed 2 Elect R'000	Subtotal carried forward R'000
2019						
Net risk contribution income	**542 909**	**18 378**	**200 263**	**129 397**	**5 530**	**896 477**
Relevant healthcare expenditure	**(426 463)**	**(12 753)**	**(195 475)**	**(116 290)**	**(4 928)**	**(755 909)**
Net claims incurred	**(426 463)**	**(12 753)**	**(195 475)**	**(116 290)**	**(4 928)**	**(755 909)**
Risk claims incurred	(412 368)	(12 410)	(189 599)	(113 857)	(4 823)	(733 057)
Claims paid from PMSA on behalf of the member	(16 054)	(434)	(6 473)	(2 790)	(122)	(25 873)
Third party claims recoveries	1 959	91	597	357	17	3 021
Net income on risk transfer arrangements	**-**	**-**	**-**	**-**	**-**	**-**
Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-
Recoveries from risk transfer arrangements	-	-	-	-	-	-
Gross healthcare result	**116 446**	**5 625**	**4 788**	**13 107**	**602**	**140 568**
Broker service fees	(15 716)	(520)	(4 866)	(3 389)	(148)	(24 639)
Administration expenses	(95 133)	(4 417)	(25 681)	(17 719)	(841)	(143 791)
Net impairment losses on healthcare receivables	(5 830)	(70)	(952)	(436)	(12)	(7 300)
Net healthcare result	**(233)**	**618**	**(26 711)**	**(8 437)**	**(399)**	**(35 162)**
Other income	**38 953**	**1 774**	**10 430**	**7 335**	**334**	**58 826**
Fraud Recovery	801	38	216	150	7	1 212
Investment income: Medical Scheme	37 672	1 736	10 012	7 172	327	56 919
Prescribed credit write back of unclaimed savings	121	-	69	-	-	190
Administration penalty	356	-	132	12	-	500
Sundry income	3	-	1	1	-	5
Other expenditure	**(2 356)**	**(101)**	**(737)**	**(431)**	**(20)**	**(3 645)**
Asset management fees	(1 992)	(93)	(531)	(379)	(17)	(3 012)
Interest on PMSA	(364)	(8)	(206)	(52)	(3)	(633)
Net surplus/(deficit) for the year	**36 364**	**2 291**	**(17 018)**	**(1 533)**	**(85)**	**20 019**
Number of members per option	**21 400**	**1 123**	**5 288**	**4 711**	**189**	**32 711**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16 Operations per benefit option *(continued)*	Subtotal brought forward R'000	FlexiFed 3 R'000	FlexiFed 3 Grid R'000	FlexFed 3 Elect Flexied 3	FlexiFed 4 R'000	FlexiFed 4 Grid R'000	FlexiFed 4 Elect R'000	Maxima Plus R'000	Maxima Exec R'000	Subtotal carried forward R'000
2019										
Net risk contribution income	**896 477**	**584 864**	**62 638**	**4 669**	**1 085 166**	**45 378**	**23 258**	**174 897**	**311 457**	**3 188 804**
Relevant healthcare expenditure	**(755 909)**	**(550 309)**	**(67 762)**	**(4 819)**	**(1 015 116)**	**(43 302)**	**(21 327)**	**(192 832)**	**(313 756)**	**(2 965 132)**
Net claims incurred	**(755 909)**	**(550 309)**	**(67 762)**	**(4 819)**	**(1 015 116)**	**(43 302)**	**(21 327)**	**(192 832)**	**(313 756)**	**(2 965 132)**
Risk claims incurred	**(733 057)**	(536 043)	(66 281)	(4 737)	(965 538)	(41 792)	(20 092)	(182 109)	(265 751)	**(2 815 400)**
Claims paid from PMSA on behalf of the member	**(25 873)**	(15 634)	(1 641)	(96)	(52 253)	(1 596)	(1 290)	(10 861)	(48 396)	**(157 640)**
Third party claims recoveries	**3 021**	1 368	160	14	2 675	86	55	138	391	**7 908**
Net income on risk transfer arrangements	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-	-	-	-	-
Recoveries from risk transfer arrangements	-	-	-	-	-	-	-	-	-	-
Gross healthcare result	**140 568**	**34 555**	**(5 124)**	**(150)**	**70 050**	**2 076**	**1 931**	**(17 935)**	**(2 299)**	**223 672**
Broker service fees	**(24 639)**	(11 896)	(1 356)	(113)	(19 901)	(726)	(597)	(1 132)	(3 275)	**(63 635)**
Administration expenses	**(143 791)**	(66 500)	(7 702)	(663)	(97 685)	(4 139)	(2 613)	(6 698)	(18 927)	**(348 718)**
Net impairment losses on healthcare receivables	**(7 300)**	(4 070)	(126)	(9)	(3 860)	(67)	(71)	(258)	(925)	**(16 686)**
Net healthcare result	**(35 162)**	**(47 911)**	**(14 308)**	**(935)**	**(51 396)**	**(2 856)**	**(1 350)**	**(26 023)**	**(25 426)**	**(205 367)**
Other income	**58 826**	**27 398**	**3 071**	**264**	**41 830**	**1 644**	**1 161**	**3 294**	**7 940**	**145 428**
Fraud Recovery	**1 212**	560	65	6	818	35	22	56	159	**2 933**
Investment income: Medical Scheme	**56 919**	26 303	3 005	258	37 767	1 609	1 011	2 654	7 451	**136 977**
Prescribed credit write back of unclaimed savings	**190**	272	-	-	1 424	-	31	472	226	**2 615**
Administration penalty	**500**	261	1	-	1 818	-	97	112	103	**2 892**
Sundry income	**5**	2	-	-	3	-	-	-	1	**11**
Other expenditure	**(3 645)**	**(1 993)**	**(196)**	**(18)**	**(6 748)**	**(147)**	**(110)**	**(318)**	**(1 122)**	**(14 297)**
Asset management fees	**(3 012)**	(1 391)	(159)	(14)	(2 000)	(85)	(54)	(140)	(393)	**(7 248)**
Interest on PMSA	**(633)**	(602)	(37)	(4)	(4 748)	(62)	(56)	(178)	(729)	**(7 049)**
Net surplus/(deficit) for the year	**20 019**	**(22 506)**	**(11 433)**	**(689)**	**(16 314)**	**(1 359)**	**(299)**	**(23 047)**	**(18 608)**	**(74 236)**
Number of members per option	**32 711**	**14 962**	**1 636**	**140**	**18 967**	**837**	**500**	**1 484**	**4 146**	**75 383**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16 Operations per benefit option *(continued)*	Subtotal brought forward R'000	Maxima Exec Grid R'000	MyFed R'000	Grand Total R'000
2019				
Net risk contribution income	**3 188 804**	**11 812**	**84 956**	**3 285 572**
Relevant healthcare expenditure	**(2 965 132)**	**(23 763)**	**(77 508)**	**(3 066 403)**
Net claims incurred	**(2 965 132)**	**(23 763)**	**(77 918)**	**(3 066 813)**
Risk claims incurred	**(2 815 400)**	(21 939)	(78 408)	**(2 915 747)**
Claims paid from PMSA on behalf of the member	**(157 640)**	(1 842)	-	**(159 482)**
Third party claims recoveries	**7 908**	18	490	**8 416**
Net income on risk transfer arrangements	**-**	**-**	**410**	**410**
Risk transfer arrangement fees/premiums paid	**-**	**-**	(975)	**(975)**
Recoveries from risk transfer arrangements	**-**	**-**	1 385	**1 385**
Gross healthcare result	**223 672**	**(11 951)**	**7 448**	**219 169**
Broker service fees	**(63 635)**	(141)	(2 733)	(66 509)
Administration expenses	**(348 718)**	(852)	(11 443)	(361 013)
Net impairment losses on healthcare receivables	**(16 686)**	(45)	(314)	(17 045)
Net healthcare result	**(205 367)**	**(12 989)**	**(7 042)**	**(225 398)**
Other income	**145 428**	**340**	**9 366**	**155 134**
Fraud Recovery	**2 933**	7	193	3 133
Investment income: Medical Scheme	**136 977**	333	9 164	146 474
Prescribed credit write back of unclaimed savings	**2 615**	-	5	2 620
Administration penalty	**2 892**	-	3	2 895
Sundry income	**11**	-	1	12
Other expenditure	**(14 297)**	**(29)**	**(480)**	**(14 806)**
Asset management fees	**(7 248)**	(19)	(480)	**(7 747)**
Interest on PMSA	**(7 049)**	(10)	-	**(7 059)**
Net surplus/(deficit) for the year	**(74 236)**	**(12 678)**	**1 844**	**(85 070)**
Number of members per option	**75 383**	**193**	**4 239**	**79 815**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16 Operations per benefit option *(continued)*	Ultimax R'000	Maxima Plus R'000	Maxima Exec R'000	Maxima Standard R'000	Maxima Standard Elect R'000	Subtotal carried forward R'000
2018						
Net risk contribution income	**27 204**	**147 258**	**332 633**	**1 086 008**	**23 441**	**1 616 544**
Relevant healthcare expenditure	**(24 217)**	**(142 400)**	**(343 147)**	**(976 470)**	**(13 735)**	**(1 499 969)**
Net claims incurred	**(24 217)**	**(142 400)**	**(343 147)**	**(976 470)**	**(13 735)**	**(1 499 969)**
Risk claims incurred	(22 617)	(133 126)	(316 676)	(757 219)	(8 953)	(1 238 591)
Claims paid from PMSA on behalf of the member	(1 618)	(9 397)	(26 881)	(221 397)	(4 842)	(264 135)
Third party claims recoveries	18	123	410	2 146	60	2 757
Net income on risk transfer arrangements	**-**	**-**	**-**	**-**	**-**	**-**
Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-
Recoveries from risk transfer arrangements	-	-	-	-	-	-
Gross healthcare result	**2 987**	**4 858**	**(10 514)**	**109 538**	**9 706**	**116 575**
Broker service fees	(129)	(1 037)	(3 260)	(21 489)	(451)	(26 366)
Administration expenses	(870)	(6 071)	(20 312)	(105 498)	(2 948)	(135 699)
Net impairment losses on healthcare receivables	(58)	(141)	(591)	(4 789)	(167)	(5 746)
Net healthcare result	**1 930**	**(2 391)**	**(34 677)**	**(22 238)**	**6 140**	**(51 236)**
Other income	**889**	**2 799**	**7 875**	**51 489**	**914**	**63 966**
Fraud Recovery	9	66	221	1 147	32	1 475
Investment income: Medical Scheme	235	1 638	5 470	28 436	793	36 572
Prescribed credit write back of unclaimed savings	645	1 095	2 184	21 888	89	25 901
Sundry income	-	-	-	18	-	18
Other expenditure	**(57)**	**(282)**	**(903)**	**(6 187)**	**(115)**	**(7 544)**
Asset management fees	(14)	(100)	(336)	(1 743)	(49)	(2 242)
Interest on PMSA	(43)	(182)	(567)	(4 444)	(66)	(5 302)
Net surplus/(deficit) for the year	**2 762**	**126**	**(27 705)**	**23 064**	**6 939**	**5 186**
Number of members per option	**168**	**1 180**	**3 992**	**20 661**	**583**	**26 584**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16 Operations per benefit option *(continued)*	Subtotal brought forward R'000	Maxima Advance R'000	Maxima Basis R'000	Maxima Basis Grid R'000	Maxima Core R'000	Maxima Core Grid R'000	Maxima Saver R'000	Maxima Saver Grid R'000	Maxima Entry Saver R'000	Subtotal carried forward R'000
2018										
Net risk contribution income	**1 616 544**	**138 105**	**260 670**	**19 504**	**297 663**	**13 703**	**187 995**	**48 509**	**343 977**	**2 926 670**
Relevant healthcare expenditure	**(1 499 969)**	**(143 824)**	**(224 722)**	**(17 256)**	**(270 872)**	**(15 181)**	**(161 565)**	**(37 363)**	**(262 049)**	**(2 632 801)**
Net claims incurred	**(1 499 969)**	**(143 824)**	**(224 722)**	**(17 256)**	**(270 872)**	**(15 181)**	**(161 565)**	**(37 363)**	**(262 049)**	**(2 632 801)**
Risk claims incurred	**(1 238 591)**	(131 601)	(183 280)	(14 056)	(271 595)	(15 219)	(130 155)	(29 845)	(200 885)	**(2 215 227)**
Claims paid from PMSA on behalf of the member	**(264 135)**	(12 455)	(42 057)	(3 248)	-	-	(31 929)	(7 638)	(62 451)	**(423 913)**
Third party claims recoveries	**2 757**	232	615	48	723	38	519	120	1 287	**6 339**
Net income on risk transfer arrangements	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Risk transfer arrangement fees/premiums paid	**-**	-	-	-	-	-	-	-	-	**-**
Recoveries from risk transfer arrangements	**-**	-	-	-	-	-	-	-	-	**-**
Gross healthcare result	**116 575**	**(5 719)**	**35 948**	**2 248**	**26 791**	**(1 478)**	**26 430**	**11 146**	**81 928**	**293 869**
Broker service fees	**(26 366)**	(1 725)	(5 498)	(402)	(6 069)	(302)	(4 715)	(1 311)	(10 625)	**(57 013)**
Administration expenses	**(135 699)**	(11 516)	(30 487)	(2 407)	(35 846)	(1 884)	(25 806)	(7 390)	(64 682)	**(315 717)**
Net impairment losses on healthcare receivables	**(5 746)**	(260)	(1 064)	(68)	413	(38)	(1 281)	(250)	(3 192)	**(11 486)**
Net healthcare result	**(51 236)**	**(19 220)**	**(1 101)**	**(629)**	**(14 711)**	**(3 702)**	**(5 372)**	**2 195**	**3 429**	**(90 347)**
Other income	**63 966**	**3 828**	**9 115**	**667**	**10 059**	**526**	**7 334**	**2 019**	**18 022**	**115 536**
Fraud Recovery	**1 475**	125	331	26	389	20	280	78	702	**3 426**
Investment income: Medical Scheme	**36 572**	3 103	8 216	641	9 670	506	6 927	1 914	17 212	**84 761**
Prescribed credit write back of unclaimed savings	**25 901**	600	568	-	-	-	127	27	108	**27 331**
Sundry income	**18**	-	-	-	-	-	-	-	-	**18**
Other expenditure	**(7 544)**	**(430)**	**(941)**	**(55)**	**(592)**	**(31)**	**(648)**	**(142)**	**(1 351)**	**(11 734)**
Asset management fees	**(2 242)**	(190)	(504)	(40)	(592)	(31)	(426)	(120)	(1 064)	**(5 209)**
Interest on PMSA	**(5 302)**	(240)	(437)	(15)	-	-	(222)	(22)	(287)	**(6 525)**
Net surplus/(deficit) for the year	**5 186**	**(15 822)**	**7 073**	**(17)**	**(5 244)**	**(3 207)**	**1 314**	**4 072**	**20 100**	**13 455**
Number of members per option	**26 584**	**2 265**	**5 963**	**517**	**6 984**	**386**	**5 219**	**2 138**	**13 965**	**64 021**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16 Operations per benefit option *(continued)*	Subtotal brought forward R'000	Maxima Entry Zone R'000	Blue Door Plus R'000	Dynamic Saver R'000	Dynamic Hospital R'000	Grand Total R'000
2018						
Net risk contribution income	**2 926 670**	**108 288**	**74 645**	**-**	**-**	**3 109 603**
Relevant healthcare expenditure	**(2 632 801)**	**(77 300)**	**(69 680)**	**(140)**	20	**(2 779 901)**
Net claims incurred	**(2 632 801)**	**(77 300)**	**(70 133)**	**(140)**	20	**(2 780 354)**
Risk claims incurred	**(2 215 227)**	(77 714)	(70 553)	(126)	20	**(2 363 600)**
Claims paid from PMSA on behalf of the member	**(423 913)**	-	-	(14)	-	**(423 927)**
Third party claims recoveries	**6 339**	414	420	-	-	**7 173**
Net income on risk transfer arrangements	**-**	**-**	453	**-**	**-**	**453**
Risk transfer arrangement fees/premiums paid	**-**	-	(885)	-	-	**(885)**
Recoveries from risk transfer arrangements	**-**	-	1 338	-	-	**1 338**
Gross healthcare result	**293 869**	**30 988**	**4 965**	**(140)**	**20**	**329 702**
Broker service fees	**(57 013)**	(2 542)	(2 368)	(1)	-	(61 924)
Administration expenses	**(315 717)**	(12 902)	(10 306)	-	-	(338 925)
Net impairment losses on healthcare receivables	**(11 486)**	(401)	(442)	-	-	(12 329)
Net healthcare result	**(90 347)**	**15 143**	**(8 151)**	**(141)**	**20**	**(83 476)**
Other income	**115 536**	**5 781**	**5 966**	**-**	**-**	**127 283**
Fraud Recovery	**3 426**	225	232	-	-	3 883
Investment income: Medical Scheme	**84 761**	5 556	5 734			96 051
Prescribed credit write back of unclaimed savings	**27 332**	-	-	-	-	27 332
Sundry income	**18**	-	-	-	-	18
Other expenditure	**(11 734)**	**(342)**	**(352)**	**-**	**-**	**(12 428)**
Asset management fees	**(5 209)**	(342)	(352)	-	-	(5 903)
Interest on PMSA	**(6 525)**	-				(6 525)
Net surplus/(deficit) for the year	**13 455**	**20 582**	**(2 536)**	**(141)**	**20**	**31 379**
Number of members per option	**64 021**	**4 300**	**4 487**	**-**	**-**	**72 808**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

17 Cash flows utilised in operations before working capital changes	2019 R'000	2018 R'000
Net (deficit)/surplus for the year	**(85 070)**	31 379
Adjustments for:		
– net movement in allowance for impaired receivables	**10 913**	6 244
– investment income: Medical Scheme	**(108 803)**	(96 473)
– interest paid on PMSA liability (Note 6)	**7 059**	6 525
– net fair value realised on disposal (Note 13)	**(37 671)**	422
Balance as at the end of the year	**(213 572)**	(51 903)

18 Related party transactions	2019 R'000	2018 R'000

The administrator and its associates

Medscheme Holdings (Pty) Ltd, the administrator, Aid for Aids Management (Pty) Ltd, AfroCentric Technologies (Pty) Ltd, Klinikka (Pty) Ltd, Pharmacy Direct (Pty) Ltd, The Cheese Has Moved (Pty) Ltd and Wellworx (Pty) Ltd are subsidiaries of AfroCentric Health (Pty) Ltd and provide key management services to the Scheme. Wellworx is an authorised Financial Services Provider (FSP: 46017), mandated by the Scheme to sell Fedhealth and other complimentary financial service products. PHA managed the Topmed winddown after amalgamation. These entities participate in the financial and operational activities of the Scheme, but do not control the Scheme. The administrator and its associates have been included due to the significance of the outsourcing relationship.

Statement of comprehensive income		
Medscheme Holdings (Pty) Ltd	**345 487**	322 093
– Actuarial fees	**1 974**	1 867
– Administration fees	**261 870**	242 825
– Administration penalty	**(2 620)**	-
– Insurance Fraud Management (IFM)	**2 919**	2 712
– Managed care: management services	**79 787**	72 824
– Third party collection administration services	**1 557**	1 865
AfroCentric Health (Pty) Ltd	**94 775**	81 213
– Aid for Aids Management	**10 135**	9 288
– AfroCentric Technologies (Previously: Helios IT Solutions)	**(1 755)**	**(1 076)**
– Klinikka	**2 128**	1 205
– Pharmacy Direct	**21 198**	20 802
– PHA		
– Administration winddown fee	**8 621**	-
– Managed care winddown fee	**2 788**	-
– The Cheese Has Moved	**41 696**	43 079
– Wellworx	**9 964**	7 915

Statement of financial position		
Medscheme Holdings (Pty) Ltd	**755**	(1 582)
– Administration fees	**194**	(2 265)
– Aid for Aids Management	**(8)**	(3)
– Managed care: management services	**431**	560
– Third party collection administration services	**138**	126

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

18 Related party transactions *(continued)*	2019 R'000	2018 R'000
Statement of financial position *(continued)*		
AfroCentric Health (Pty) Ltd		
– AfroCentric Technologies	**(1 454)**	**3 209**

Terms and conditions of administration and managed care agreements

The administration and managed care agreements comply with the rules of the Scheme and are in accordance with instructions given by the Board of Trustees (the Board). The agreements comply with the Act and are automatically renewed each year unless notification of termination is received. The outstanding balances are due within 30 days.

Key management personnel of the Scheme

The Board Members, Principal Officer, Scheme employees, their dependants and close family members

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board Members, Principal Officer and Scheme employees. Close family members are members and dependants of the Board Members, Principal Officer and Scheme employees are therefor also related parties.

Statement of comprehensive income		
Board Members' fees for holding of office and related expenses and Principal Officer's remuneration and expenses	**8 309**	6 820
– Risk contributions received in terms of the Scheme's rules	**531**	584
– Risk claims incurred in terms of the Scheme's rules	**(247)**	(310)
Statement of financial position		
– PMSA liability	**(6)**	-
– Loan to member (Wallet) liability	**(15)**	-
– Loan to member (MediVault) debtors	**9**	-
– Risk contribution debtors	**57**	-

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

Remuneration and expenses

This constitutes remuneration and disbursements paid to the Principal Officer and Board Members for services rendered.

Risk contributions received

This constitutes the risk contributions paid by the related parties as members of the Scheme, in their individual capacities. All contributions are on the same terms as applicable to Scheme members.

Risk claims incurred

This constitutes risk claims from related parties, in their individual capacities as members of the Scheme. All risk claims are paid out in terms of the rules of the Scheme, as applicable to Scheme members.

Risk contribution debtors

This constitutes risk contributions that are payable in arrears as stipulated in the rules of the Scheme. None of these debts are doubtful and thus no impairment for doubtful debts has been raised on these amounts.

Loan to members

This constitutes an interest-free loan transferred from the MediVault benefit to the member's Wallet account. The member only pay back the money transferred from the MediVault to the Wallet - interest free over a maximum period of twelve (12) months. The instalments are payable in arrears, none of these debts are doubtful and thus no impairment for doubtful debt has been raised on these amounts.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

19 Non-compliance matters

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
19.1 Contributions not received within the time stipulated by the Act		
Section 26(7) of the Act states that: "All subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due." Exceptions were found and credit control procedures were applied.	Late payment may result in a loss of interest on these amounts to the Scheme for the number of days that payment is late. This is not significant due to the short duration of the contributions outstanding. Members and employer groups are continuously instructed to submit payment on time.	The Board addresses the issue on an ongoing basis in accordance with the Scheme's credit control policy.
19.2 Claim payments in excess of 30 days		
Section 59(2) of the Act states that: "A medical scheme shall, in the case where an account has been rendered, subject to the provisions of this Act and the rules of the medical scheme concerned, pay to a member or a supplier of service, any benefit owing to that member or supplier of service within 30 days after the day on which the claim in respect of such benefit was received by the medical scheme." Exceptions were found at the beginning of the financial year when claims are put on hold, to ensure that the approved tariff and benefit limits are loaded correctly on the administration platform. This process results in a delay in the processing of payments due to the backlog in claims, but only for a few days.	The delay only occurs at the beginning of the financial year when new tariffs and benefit limits are loaded; claims are paid within the first week of tariff and benefit limit approval. The Scheme is not compliant with the Act and/or its rules when certain valid claims are rejected or amounts due on valid claims are short paid.	The year-end process is not considered to be significant due to the members and providers conforming to the annual practice. The practice ensures accurate claims processing for the new benefit year and is in the interest of the risk management process for the Scheme.
19.3 Loss making options		
Section 33(2) of the Act states that: "The Registrar shall not approve any benefit option under this section unless the Council is satisfied that such benefit options (b) shall be self-supporting in terms of membership and financial performance and (c) is financially sound." Various options made net healthcare deficits as disclosed in Note 16 to the financial statements.	The Council may withdraw benefit options, directly affecting the members on these options.	The Scheme was specifically costed to incur net healthcare deficits on certain options. The Scheme actuary has taken this into account in costing the benefits for the 2020 financial year.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

19 Non-compliance matters *(continued)*

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
19.3 Loss making options		
Section 33(2) of the Act states that: "The Registrar shall not approve any benefit option under this section unless the Council is satisfied that such benefit options (b) shall be self-supporting in terms of membership and financial performance and (c) is financially sound." Various options made net healthcare deficits as disclosed in Note 16 to the financial statements.	The Council may withdraw benefit options, directly affecting the members on these options.	The Scheme was specifically costed to incur net healthcare deficits on certain options. The Scheme actuary has taken this into account in costing the benefits for the 2019 financial year.
19.4 Prohibition of Investments in an employer who participates in the medical scheme or in any administrators		
Section 35(8)(a), (c) and (d) of the Act sets out the prohibition of investments in participating employer and administrators. The Scheme is currently invested in Discovery Holdings Ltd, Liberty Holdings Ltd, Standard Bank Group Ltd, MMI Holdings Ltd, Sanlam Life Insurance Ltd and Sanlam Ltd through portfolios managed by underlying investment managers.	The Scheme is non-compliant with Section 35(8). The Council may require the Scheme to disinvest from these companies.	The Council renewed the exemption, as none of these companies have any influence over the Scheme and the Scheme does not have any influence over these entities in which it holds investments.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

20 Critical accounting judgments and areas of key sources of estimation uncertainty

In the process of applying the Scheme's accounting policies, the Board has made the following judgments that have the In the process of applying the Scheme's accounting policies, the Board has made the following judgments that have the most significant impact on the amounts recognised in the financial statements.

Certain critical accounting judgments in applying the Scheme's accounting policies and key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year, are discussed below.

The ultimate liability arising from risk claims made under medical insurance contracts
There are some sources of uncertainty that need to be considered in the estimation of the liability that the Scheme will ultimately pay for such risk claims. Initial estimates are made relating to the best calculations on reported risk claims and are derived as the risk claims process develops. All estimates are revised and adjusted at year-end by management. Refer to Note 5 for the method used to calculate the outstanding risk claims provision.

Other judgements and estimates
The Scheme has involvement with investment funds in which it invests but it does not consolidate. The investment funds meet the definition of structured entities because:

- the voting rights in the funds are not dominant rights in deciding who controls them because they relate to administrative tasks only;
- each fund's activities are restricted by prospectus; and
- the funds' have narrow and well-defined objectives to provide investment opportunities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

21 Amalgamation

An amalgamation between Fedhealth and Topmed (Registration number 1422) was confirmed and became effective from 1 August 2019. The disclosures provided below have been provided to enable users to evaluate the nature and financial effect of the amalgamation.

Topmed was a not-for-profit open medical scheme registered in terms of the Act.

In terms of the Act, medical schemes do not have equity therefore the Scheme did not acquire any voting equity interest. The members of the Scheme and Topmed voted that the amalgamation of Topmed with the Scheme would be in the best interest of the Topmed members.

The Scheme obtained control of Topmed by means of the exposition requirements as set out in Section 63 of the Act.

On the date of the amalgamation 15 808 principal members and 30 387 beneficiaries joined the Scheme.

No goodwill was recognised as a result of this transaction.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

21 Amalgamation *(continued)*

STATEMENT OF FINANCIAL POSITION

The acquisition date fair value of the total consideration transferred and the acquisition date fair value of each major class of assets and liabilities was:

TOPMED MEDICAL SCHEME	31 July 2019 R'000
Reserves effectively transferred:	
(Acquisition date fair value of Topmed members' interest)	**434 875**
Net recognised values of Topmed identifiable assets and liabilities	**434 875**
Assets	
Non-current assets	**503 811**
Investment held at fair value through profit and loss	**503 811**
Current assets	**65 284**
Trade and other receivables	**32 662**
Cash and cash equivalents	**32 622**
Current liabilities	**(134 220)**
Outstanding risk claims provision	**(31 318)**
PMSA liability (Note 6)	**(63 211)**
Trade and other payables	**(39 691)**
Net recognised values of Topmed identifiable assets and liabilities	**434 875**
Amalgamation expenses (Note 11)	**(176)**
Total funds and liabilities	**434 699**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

21 Amalgamation *(continued)*

TOPMED MEDICAL SCHEME AMALGAMATION DISCLOSURE

TOPMED MEDICAL SCHEME	31 July 2019 R'000	31 July 2019 R'000
Trade and other receivables acquired	**Fair value**	**Gross contractual value**
Insurance Receivables	**32 662**	**39 759**
Members co-payments receivable	**218**	**218**
Provider debts receivable	**305**	**305**
Contribution debts receivable	**16 841**	**16 841**
Advances on PMSA	**21 579**	**21 579**
Other accounts receivables	**816**	**816**
Provision for impairment	**(7 097)**	**-**

TOPMED MEDICAL SCHEME	31 December R'000
Best estimate at the acquisition date of the contractual cashflows not expected	
Insurance Receivables	**5 716**
Members co-payments receivable	**3**
Provider debts receivable	**25**
Contribution debts receivable	**100**
Advances on PMSA	**5 588**

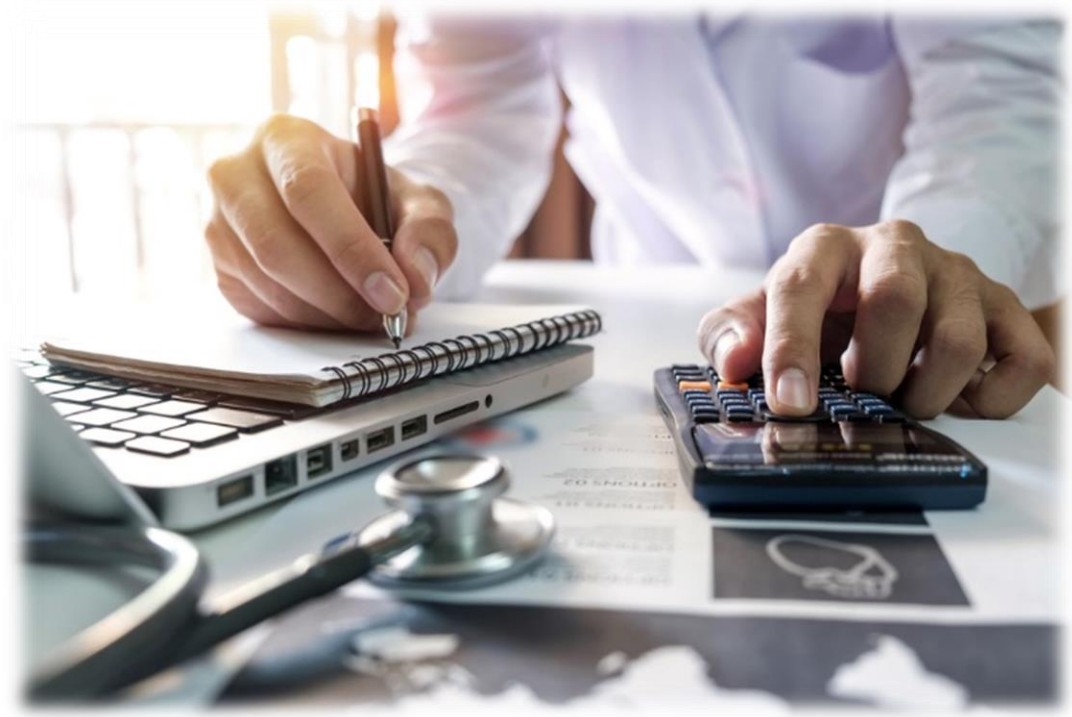
NOTES TO THE FINANCIAL STATEMENTS *(continued)*

22 Insurance risk management

The Board acknowledges its responsibility for establishing and communicating appropriate risk and control policies and ensuring that adequate risk management processes are in place. The Scheme has a number of committees which deal with the various policies for accepting risks, including selection and approval of risks to be insured, use of limits and avoiding undue concentrations of risk, and underwriting strategies to ensure appropriate risk classification and premium levels.

Risk management objectives and policies for mitigating insurance risk
The primary insurance activity carried out by the Scheme assumes the risk of loss from members and their dependants that are directly subject to the risk. The risks relate to the health of the Scheme members. As such, the Scheme is exposed to uncertainty surrounding the timing and severity of claims under the contract. Details regarding the subsequent claims development in respect thereof have been disclosed in Note 5. The Scheme also has exposure to market risk through its insurance and investment activities.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisations and case management, service provider profiling as well as the monitoring of emerging issues.



NOTES TO THE FINANCIAL STATEMENTS *(continued)*

22 Insurance risk management *(continued)*

The Scheme uses several methods to assess and monitor medical insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of risk claims are greater than expected.

Medical 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.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will 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.

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

Chronic benefits cover the cost of certain prescribed medicines utilised by members for chronic conditions such as high blood pressure, cholesterol and asthma.

Day-to-day benefits cover the cost (up to 100% of the Scheme's tariff) of out-of-hospital medical attention, such as visits to general practitioners and dentists as well as prescribed non-chronic medicines.

The Scheme's strategy seeks diversity of risk to ensure a balanced risk profile and is based on a large pool of similar risks over a period of time and, as such, it is believed that this reduces the variability of the outcome.

The strategy is set out in the annual budget and benefit guide, which specifies the benefits to be provided by each option, the preferred target market and demographic split thereof.

All the contracts are periodic in nature and the Scheme has the right to change the terms and conditions of the contract at renewal. Management information including contribution income and claims ratios by option, target market and demographic split, is reviewed monthly. There is also an underwriting review programme that regularly reviews a sample of contracts to ensure adherence to the Scheme's objectives.

Medical insurance risks facing the Scheme

Adequacy of contributions

The most significant medical insurance risk that the Scheme faces is the risk that contributions are not sufficient to cover claims expenditure and other expenses, and are further not sufficient to maintain the accumulated funds ratio of the Scheme at the required level.

However, subject to the approval of the Council, the Scheme is able to reset contributions for a change in circumstances.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

22 Insurance risk management *(continued)*

Concentration of risk

The following table summarises the concentration of insurance risk, net of the risk transfer arrangement, with reference to the carrying amount of the insurance claims incurred in relation to the type of benefit provided:

		2019		2018
Provider categories	**%**	**R'000**	**%**	R'000
Medical practitioners	**3.22%**	**94 254**	3.77%	101 132
Medical specialists	**32.49%**	**951 184**	32.02%	859 527
Hospitals	**47.94%**	**1 403 162**	48.01%	1 288 988
Medicines	**10.74%**	**314 495**	10.53%	282 743
Optical	**0.12%**	**3 642**	0.21%	5 647
Dentistry	**0.30%**	**8 873**	0.47%	12 584
Paramedical services	**4.12%**	**120 696**	3.88%	104 078
Physiotherapy	**1.06%**	**31 048**	1.09%	29 345
Associated health services	**0.01%**	**290**	0.02%	632
Total	**100.00%**	**2 927 644**	100.00%	2 684 676

Distribution of principal members across options at year-end

		2019		2018
Option name	**%**	**Membership**	**%**	Membership
Maxima Plus	**1.86%**	**1 484**	1.62%	1 180
Maxima Exec	**5.19%**	**4 146**	5.48%	3 992
Maxima Exec Grid	**0.24%**	**193**	0.00%	-
FlexiFed1 (Maxima EntrySaver)	**26.80%**	**21 400**	19.18%	13 965
FlexiFed1 Elect (Maxima Saver Grid)	**1.41%**	**1 123**	2.94%	2 138
FlexiFed2 (Maxima Saver)	**6.63%**	**5 288**	7.17%	5 219
FlexiFed2 Grid	**5.90%**	**4 711**	0.00%	-
FlexiFed2 Elect	**0.24%**	**189**	0.00%	-
FlexiFed3 (Maxima Basis)	**18.75%**	**14 962**	8.19%	5 963
FlexiFed3 Grid (Maxima Basis Grid)	**2.05%**	**1 636**	0.71%	517
FlexiFed3 Elect	**0.18%**	**140**	0.00%	-
FlexiFed4 (Maxima Standard)	**23.76%**	**18 967**	28.38%	20 661
FlexiFed4 Grid	**1.05%**	**837**	0.00%	-
FlexiFed4 Elect (Maxima Standard Elect)	**0.63%**	**500**	0.80%	583
MyFed (Blue Door Plus)	**5.31%**	**4 239**	6.16%	4 487
Ultimax (merged with Maxima Plus)	**0.00%**	**-**	0.23%	168
Maxima Advance (merged with FlexiFed4)	**0.00%**	**-**	3.11%	2 265
Maxima Core (merged with FlexiFed3)	**0.00%**	**-**	9.59%	6 984
Maxima Core Grid (merged with FlexiFed3 Grid)	**0.00%**	**-**	0.53%	386
Maxima EntryZone (merged with FlexiFed1)	**0.00%**	**-**	5.91%	4 300
Total	**100.00%**	**79 815**	100.00%	72 808

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

22 Insurance risk management *(continued)*

Qualitative risk factors

A major source of uncertainty in the current legislative and market environment is:

- The continued absence of a standard reference price, previously applicable by the Scheme to services where no prior negotiated fee existed, means that reimbursement for 2020 for these services is assumed to be at the 2019 Scheme Rate plus 4.5%. Should a 2020 Reference Price List be published, or a statutory pricing body intervene, the 2020 Scheme Rate may be too low, and this could pose a significant financial risk to the Fund (although the rates negotiated with some disciplines provide a degree of protection). The likelihood of this change is considered small, although the recommendation from the Health Market Inquiry may kick-start such processes.

- Prescribed Minimum Benefit (PMB). The legal challenge based on the interpretation that PMB claims should be funded at the invoiced price has been dismissed. This issue still remains a material risk to the Scheme. General Practitioner and Specialist Networks have been implemented and this should mitigate the risk to a large extent.

- A major source of uncertainty in the current legislative and market environment is the introduction of National Health Insurance (NHI), most recently with the latest iteration of the National Health Insurance Bill that was tabled in Parliament on 8 August 2019. The Bill provides key details regarding the policy trajectory that is envisaged for the South African health system. A system of "mandatory prepayment" is earmarked, with funding to take place through social solidarity taxation principles. According to the Bill, the NHI Fund is to be fully operational by 2026 and, once NHI has been fully implemented, medical scheme cover would be complementary to NHI cover. The exact services specified under the Bill is not yet defined, but this is intended to be "comprehensive healthcare services".

  These are large-scale changes that would affect private providers of care and it is therefore clear that NHI in its current proposed form will have a major impact on medical schemes; however, no explicit allowance has been made for these developments in the 2020 contribution review. It should be noted that there is a possible risk of an increase in utilisation in the medium term - especially of elective services - as members may want to access these benefits earlier due to the expectation that might exist that such services may no longer be available from medical scheme cover at some point in the future. The NHI draft bill does not detail explicit provisions that there will be any significant changes in the role, structure and functioning of the Medial Schemes industry.

- Competition Commission Healthcare Market Inquiry – The Competition Commission has established a market inquiry into the private healthcare sector in terms of Chapter 4A of the Competition Act, 89 of 1998 (as amended). The aim of this inquiry is to help identify the factors driving increased expenditure as well as the market dynamics at play within the healthcare industry.

  Following several iterations of public hearings, submissions and interviews, the Provisional Findings and Preliminary Recommendations of the Health Market Inquiry (HMI) were published on 5 July 2018. The Final Report was released in October 2019. This publication is a culmination of a long process of engagements that Medscheme has been continuously involved in over the four years and Medscheme has made many technical submissions on matters pertaining to market structure, tariffs, negotiation processes, market power, as well as supplier induced demand. It is yet to be established what the ultimate impact of this exercise will be and therefore no impact allowance on the 2020 budget has been made.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

22 Insurance risk management *(continued)*

Financial sustainability

The major risk affecting the future sustainability of the Scheme is the possibility of a deterioration in the risk profile of members. Schemes with a better member risk profile can offer the same benefits at a lower contribution rate than other schemes, as their members will be claiming less.

If a scheme charges higher contribution rates than the market, it is at risk of losing members and not replacing them. It is typically easier for younger, healthier members to move to another scheme. Should younger, healthier members leave the Scheme, the member risk profile would deteriorate, resulting in even higher contribution rates required.

It is therefore important that the Scheme maintains or improves its member risk profile, by attracting lower risk members and retaining healthy members in the Scheme.

Risk in terms of risk transfer arrangement

The Scheme outsources a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources. The Scheme is contracted with Iso Leso.

The capitation agreement is, in substance, the same as a non-proportional reinsurance treaty.

The Scheme cedes insurance risk to limit exposure to underwriting losses under the agreements that cover individual risks, group risks or defined blocks of business, on a co-insurance, yearly renewable term. The risk transfer arrangement transfers the risk and minimises the effect of losses. The amount of each risk retained depends on the Scheme's evaluation of the specified risk to maximum limits based on the basis of characteristics of coverage.

According to the terms of the risk transfer arrangement, the third party agrees to reimburse the ceded amount in the event the risk claim is paid. According to the terms of the capitation agreement, the supplier provides certain minimum benefits to all Scheme members as and when required by the members. The Scheme does, however, remain liable to its members with respect to ceded insurance if any reinsurer (or supplier) fails to meet the obligations it assumes.

When selecting an insurer (or supplier) the Scheme considers their relative security. The security of the insurer (or supplier) is assessed from public rating information and from internal investigations.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 Financial risk management

The Scheme's activities expose it to a variety of financial risks, including liquidity, credit and market 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 investments that the Scheme holds to meet its obligations to its members.

Risk management and investment decisions are made under the guidance and policies approved by the Board. The Investment Committee identifies and evaluates the financial risks associated with the Scheme's investment portfolio. The Investment Committee provides written principles for investment risk management, as well as written policies covering specific areas, such as liquidity risk, credit risk and interest rate risk. The Board approves all of these written policies.

Liquidity risk management

Liquidity risk is the risk that the Scheme will encounter difficulty in raising funds to meet commitments associated with financial liabilities.

Medical schemes are registered in terms of the Act and are required to maintain a minimum accumulated fund ratio level. The Scheme's actuary and investment managers continually manage and monitor liquidity and accumulated fund ratio requirements.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The Scheme has complied with the requirements regarding the nature and categories of assets as prescribed by Section 35 and Regulation 30 of the Act. The availability of funding through liquid holding cash positions with various financial institutions ensures that the Scheme has the ability to fund its day-to-day operations.

With the exception of the PMSA refunds due to ex-members, which are generally settled not later than 5 months, trade and other payables are settled between 30 and 60 days.

The table below summarises the Scheme's exposure to liquidity risk. Included in the table are the Scheme's assets and liabilities at carrying amounts, categorised by contractual maturities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 Financial risk management *(continued)*

2019	Note	Up to 1 month R'000	1 - 3 months R'000	3 - 12 months R'000	Total R'000
Liquidity analysis					
Assets					
Non-current assets		**-**	**1 159 508**	**-**	**1 159 508**
Available-for-sale investments	2	-	1 159 508	-	1 159 508
Current assets		**799 349**	**-**	**-**	**799 349**
Trade and other receivables	3	292 352	-	-	292 352
Cash and cash equivalents: Medical Scheme assets	4	506 997	-	-	506 997
Total assets		**799 349**	**1 159 508**	**-**	**1 958 857**
Liabilities					
Current liabilities		**371 288**	**79 510**	**20 924**	**471 722**
Outstanding risk claims provision	5	108 803	79 510	20 924	209 237
PMSA liability	6	195 428	-	-	195 428
Trade and other payables	7	67 057	-	-	67 057
Total liabilities		**371 288**	**79 510**	**20 924**	**471 722**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 Financial risk management *(continued)*

2018	Note	Up to 1 month R'000	1 - 3 months R'000	3 - 12 months R'000	Total R'000
Liquidity analysis					
Assets					
Non-current assets		**-**	**725 866**	**-**	**725 866**
Available-for-sale investments	2	-	725 866	-	725 866
Current assets		**763 210**	**45 000**	**-**	**808 210**
Trade and other receivables	3	228 574	-	-	228 574
Cash and cash equivalents	4	534 636	45 000	-	579 636
Total assets		**763 210**	**770 866**	**-**	**1 534 076**
Liabilities					
Current liabilities		**341 657**	**21 824**	**44 640**	**408 121**
Outstanding risk claims provision	5	94 719	21 824	44 640	161 183
PMSA liability	6	214 155	-	-	214 155
Trade and other payables	7	32 783	-	-	32 783
Total liabilities		**341 657**	**21 824**	**44 640**	**408 121**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 Financial risk management *(continued)*

Credit risk management

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss.

The Scheme's principal financial assets are cash and cash equivalents, trade and other receivables and available-for-sale investments. The Scheme's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the statement of financial position are net of impairment. An impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Cash transactions are limited to high credit quality financial institutions. The Scheme has a policy of limiting the amount of credit exposure to any one financial institution.

Exposure to risk

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

	2019	2018
	R'000	R'000
Available-for-sale investments	**1 159 508**	725 866
Cash and cash equivalents	**506 997**	579 636
Trade and other receivables	**292 352**	228 574
Total	**1 958 857**	1 534 076

Available-for-sale investments and cash and cash equivalents

Funds are invested at various institutions after taking the following criteria into account:

- The Scheme's mandate requirements;
- Regulations as per the Act;
- Credit ratings of the various institutions; and
- Interest rates offered by the institutions.

The ratings per institution are noted in the mandates and do vary, but largely a minimum rating of "Aa1" as per Moody's Investors Services Inc. (Moody's) is applied.

Credit risk is contained by adhering to the Act by not investing more than 35% in large banks and 10% in smaller banks. The net qualifying capital and reserves are monitored on a monthly basis to determine the split between large and small banks.

The Scheme limits its exposure to credit risk by only investing in liquid securities with medium grade moderate risk financial institutions. The Scheme has a policy of limiting the amount of credit exposure to any one financial institution. Given these high credit ratings, management does not expect any financial institution to fail to meet its obligations.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 Financial risk management *(continued)*

Credit risk management *(continued)*

Loans and other receivables

Trade and other receivables

The Scheme's exposure to credit risk is influenced by the characteristics of each member and the demographics of the membership base. Approximately 5.25% (2018: 6.64%) of the Scheme's contribution income is attributed to the government membership base. However, geographically there is no concentration of credit risk.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtor's ability to pay all amounts due according to the contractual terms (for example on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Contribution debtors are collected in arrears within 30 days of raising.

In monitoring member credit risk, members are grouped according to their credit characteristics, including whether they are an individual, group or government member, whether the risk arises from contributions or member shortfalls. The Board has approved a credit control policy, thereby managing the credit risk to the Scheme.

		2019 R'000	**2019 R'000**	2018 R'000	2018 R'000
The age analysis of trade and other receivables at the reporting date was:		**Trade and other receivables**	**Impairment**	Trade and other receivables	Impairment
Not past due not impaired		**265 635**	**-**	216 625	-
Past due 0-30 days		**38 214**	**(11 670)**	13 004	(3 639)
Past due 31-60 days		**1 159**	**(989)**	1 474	(1 013)
Past due 61-90 days		**986**	**(983)**	5 656	(3 533)
More than 90 days		**11 046**	**(11 046)**	5 690	(5 690)
	Note 3	**317 040**	**(24 688)**	242 449	(13 875)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 Financial risk management *(continued)*

Market risk management

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

The asset managers buy and sell financial instruments in the ordinary course of business, and also incur financial liabilities, in order to manage market risk. All such transactions are carried out within the guidelines set by the investment mandate on behalf of the Scheme. The asset managers are allowed to invest in local and offshore assets at their discretion, provided that the investments comply fully with the Act and the mandates provided to them by the Scheme.

All the Scheme's equity investments are listed on the Johannesburg Stock Exchange (the JSE). The concentration, sensitivities and impact on profit or loss and equity are detailed below:

Diversification and concentration

Asset allocation

	2019		2018	
Asset class	**R'000**	**%**	R'000	**%**
Cash: Medical Scheme assets	**506 997**	**30.42%**	579 636	44.40%
Unlisted debentures	**10 231**	**0.61%**	16 488	1.26%
Listed equities	**589 957**	**35.40%**	258 136	19.77%
Listed fixed interest bonds	**462 754**	**27.77%**	396 552	30.38%
Listed investment property funds	**96 566**	**5.79%**	54 690	4.19%
Total	**1 666 505**	**100.00%**	1 305 502	100.00%

Price risk management

Price risk is the risk that the value of the Scheme's equity investments fluctuate as a result of changes in the market prices of instruments held, whether caused by factors specific to the underlying investments, their issuer or factors affecting all instruments traded in the market.

Price risk is mitigated primarily by diversification. Diversification is achieved through asset allocation, sector diversification and market diversification.

The majority of the Scheme's investments are simultaneously invested in various sectors of the market as well as various shares within each sector.

Currency risk management

The Scheme operates in South Africa and therefore its cash flows are denominated in Rand. The Scheme had minimal exposure to currency risk during the year under review.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 Financial risk management *(continued)*

Interest rate risk management

Interest rate risk is the risk that the value and cash flow of a financial instrument will fluctuate due to changes in market interest rates.

The Scheme's activities expose it to a variety of financial risks, including the effects of changes in equity market prices and interest rates. 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 Scheme's investment policy during the year under review was to hold certain investments in interest-bearing instruments. The Scheme's investments were therefore exposed to changes in market interest rates. The fair value of fixed rate instruments has declined in the current period due to the increase in market interest rates. These instruments are exposed to fair value interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 Financial risk management *(continued)*

Interest rate risk management *(continued)*

The table below summaries the Scheme's exposure to interest rate risks. Included in the table are the Scheme's financial assets and liabilities at carrying amounts, categorised by contractual maturities.

2019	Note	Up to 1 month R'000	1 – 3 months R'000	1 -5 years R'000	Non-interest bearing R'000	Total R'000
Available-for-sale investments	2	-	-	462 754	696 754	**1 159 508**
Trade and other receivables	3	-	-	-	100 591	**100 591**
Trade and other payables	7	-	-	-	(42 296)	**(42 296)**
Cash and cash equivalents	4	426 952	80 045	-	-	**506 997**
Total		**426 952**	**80 045**	**462 754**	**755 049**	**1 724 800**
2018						
Available-for-sale investments	2	-	-	396 552	329 314	725 866
Trade and other receivables	3	-	-	-	8 886	8 886
Trade and other payables	7	-	-	-	(3 844)	(3 844)
Cash and cash equivalents	4	499 591	80 045	-	-	579 636
Total		499 591	80 045	396 552	334 356	1 310 545

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 Financial risk management *(continued)*

Asset managers and mandates

Allocation as at 31 December 2019

Asset Manager	Segregated Mandate	Benchmark	R'000	%
Old Mutual Wealth Trust Co (Pty) Ltd	*Cash		**143 775**	**8.63%**
Allan Gray Ltd✡	Stable Medical Fund	CPI+3.0%	**84 197**	**5.05%**
Prudential Investment Management (Pty) Ltd^	Pooled Mandate	CPI+5.0%	**152 251**	**9.14%**
Sanlam Investment Management (Pty) Ltd	Absolute return	CPI+3.5%	**348 736**	**20.93%**
Sanlam Investment Management (Pty) Ltd^	Active Income Fund	SteFi+1%	**95 850**	**5.75%**
Sanlam Private Wealth (Pty) Ltd^	Capped Swix Capital	SteFi+1%	**185 220**	**11.11%**
Taquanta Asset Management (Pty) Ltd	Enhanced cash	SteFi+1%	**296 387**	**17.78%**
Truffle Asset Managers (Pty) Ltd	Absolute return	CPI+5%	**360 089**	**21.61%**
Total			**1 666 505**	**100.00%**

^ Ex-Topmed investments

Allocation as at 31 December 2018

Asset Manager	Segregated Mandate	Benchmark	R'000	%
Old Mutual Wealth Trust Co (Pty) Ltd	*Cash		210 427	16.12%
Allan Gray Ltd	(CPI+3%)		-	0.00%
Sanlam Investment Management (Pty) Ltd	Absolute return	CPI+3.5%	318 674	24.41%
Taquanta Asset Management (Pty) Ltd	Enhanced cash	SteFi+1%	464 123	35.55%
Truffle Asset Managers (Pty) Ltd	Absolute return	CPI+5%	312 278	23.92%
Total			1 305 502	100.00%

** Includes the Scheme's current accounts*

Market performance to 31 December 2019

Performance to	3 Months %	1 Year %	3 Years (%pa) %	5 Years (%pa) %
All Share Index	4.60%	12.10%	7.40%	6.00%
All Bond Index	1.73%	10.32%	9.40%	7.57%
STeFi	1.74%	7.29%	7.36%	7.18%
CPI	0.35%	3.55%	4.55%	4.94%
Resource 20	13.77%	28.53%	20.52%	8.17%
Industrial 25	0.00%	8.89%	3.22%	3.45%
Financial 15	2.82%	0.63%	3.45%	3.94%
Financial Industrial 30	0.59%	-3.37%	8.81%	5.34%
Top 40	4.54%	12.41%	8.25%	6.06%

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 Financial risk management *(continued)*

The Scheme's performance to 31 December 2019

Performance to	Market value R'000	% Portfolio	3 Months %	1 Year %	3 Years %	5 Years %
Nedbank Ltd current account	**14 081**	0.84%	1.18%	4.75%	4.91%	4.74%
Old Mutual Wealth Trust (Pty) Ltd	**129 694**	7.78%	1.65%	6.88%	6.91%	6.72%
Taquanta Asset Management (Pty) Ltd	**296 387**	17.78%	2.56%	11.81%	12.30%	10.11%
Truffle Asset Managers (Pty) Ltd	**360 089**	21.61%	7.07%	16.00%	8.34%	0.00%
Sanlam Investment Management (Pty) Ltd	**348 736**	20.93%	2.81%	10.14%	7.91%	8.33%
Sanlam Investment Management (Pty) Ltd	**95 850**	5.75%	1.99%	8.75%	8.80%	8.72%
Sanlam Private Wealth (Pty) Ltd	**185 220**	11.11%	5.62%	9.67%	5.47%	4.33%
Allan Gray Ltd	**84 197**	5.05%	2.18%	7.04%	0.00%	0.00%
Prudential Investment Managers (Pty) Ltd	**152 251**	9.15%	1.07%	6.32%	4.83%	0.00%
Total	**1 666 505**	**100.00%**				

Consolidated benchmark CPI +3.5%

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 Financial risk management *(continued)*

Sensitivity analysis: Cash and cash equivalents - Medical Scheme assets

Basis

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of investment performance (see table below) i.e. a 1% change suggests the closing market value could have been approximately R512m (2018: R585m) if the investment performance had been higher by 1% during 2019 as compared to the market investment performance. A 1% increase in the investment return at the reporting date would have increased cash by R4.73m (2018: R5.40m); an equal change in the opposite direction would have decreased cash by the same amount.

2019

% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2%	9.29%	516 449	9 452
1%	8.29%	511 723	4 726
0%	7.29%	506 997	-

2018

% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2%	9.25%	590 446	10 810
1%	8.25%	585 040	5 404
0%	7.25%	579 636	-

23 Financial risk management *(continued)*

Sensitivity analysis: Equity and investment property funds

Basis

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of investment performance (see table below) i.e. a 10% change suggests the closing market value could have been approximately R748m (2018: R347m) if the investment performance had been higher by 10% during 2019 as compared to the market investment performance.

A 10% increase in the investment return at the reporting date would have increased equity and investment property investments by R61.24m (2018: R34.20m); an equal change in the opposite direction would have decreased equity and investment property funds by the same amount.

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

	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2019				
	20%	32.10%	809 008	122 485
	10%	22.10%	747 766	61 243
	0%	12.10%	686 523	-
	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2018				
	20%	11.47%	381 226	68 400
	10%	1.47%	347 026	34 200
	0%	-8.53%	312 826	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 Financial risk management *(continued)*

Sensitivity analysis: Bonds and debentures

Basis

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of investment performance (see table below) i.e. a 1% change suggests the closing market value could have been approximately R477m (2018: R417m) if the investment performance had been higher by 1% during 2019 as compared to the market investment performance. A 1% increase in the investment return at the reporting date would have increased bond investments by R4.29m (2018: R3.84m); an equal change in the opposite direction would have decreased bond investments by the same amount.

	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2019				
	5%	15.32%	494 423	21 438
	1%	11.32%	477 273	4 288
	0%	10.32%	472 985	-
	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2018				
	5%	12.69%	432 218	19 178
	1%	8.69%	416 876	3 836
	0%	7.69%	413 040	-

Investment risk and investment return

Seeking higher investment returns is typically associated with taking additional risk through exposure to asset classes such as equities and bonds where the capital is at risk. Additional investment risk is typically associated with higher variability in asset prices.

Capital management

The Scheme's policy is to maintain a strong capital base seeking a real return with limited capital volatility and strives for ongoing capital preservation. The Board seeks to maintain a balance between conservatively pooled and bond portfolios, selected from all asset classes and shares with limited downside.

There were no changes in the Scheme's approach to capital management during the year. The Scheme is subject to externally imposed capital requirements by the Council and the Act.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 Financial risk management *(continued)*

Analysis of carrying amounts and fair value of assets and liabilities per category

Asset class *The fair values for instruments such as short-term trade receivables and payables are not disclosed, as the carrying amounts are a reasonable approximation of fair values.	Available-for-sale financial assets	Loans and receivables	Liabilities measured at amortised cost	Non-insurance receivables and payables	Insurance receivables and payables	Total carrying amount	Fair Value Level 1	Fair Value Level 2
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
2019								
Assets measured at fair value								
Investments	**1 159 508**	**-**	**-**	**-**	**-**	**1 159 508**	**1 149 277**	**10 231**
- Unlisted debentures	10 231	-	-	-	-	10 231	-	10 231
- Listed equities	589 957	-	-	-	-	589 957	589 957	-
- Listed fixed interest bonds	462 754	-	-	-	-	462 754	462 754	-
- Listed investment property funds	96 566	-	-	-	-	96 566	96 566	-
Assets not measured at fair value	**-**	**607 588**	**-**	**-**	**191 761**	**799 349**		
Cash and cash equivalents	-	506 997	-	-	-	506 997		
Trade and other receivables *	-	100 591	-	-	191 761	292 352		
Liabilities not measured at fair value	**-**	**-**	**(42 296)**	**(195 428)**	**(233 998)**	**(471 722)**		
PMSA liability	-	-	-	(195 428)	-	(195 428)		
Outstanding risk claims provision	-	-	-	-	(209 237)	(209 237)		
Trade and other payables *	-	-	(42 296)	-	(24 761)	(67 057)		
	1 159 508	**607 588**	**(42 296)**	**(195 428)**	**(42 237)**	**1 487 135**		

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23 Financial risk management *(continued)*

Analysis of carrying amounts and fair value of assets and liabilities per category

Asset class *The fair values for instruments such as short-term trade receivables and payables are not disclosed, as the carrying amounts are a reasonable approximation of fair values.	Available-for-sale financial assets	Loans and receivables	Liabilities measured at amortised cost	Non-insurance receivables and payables	Insurance receivables and payables	Total carrying amount	Fair Value	
							Level 1	Level 2
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
2018								
Assets measured at fair value								
Investments	**725 866**	**-**	**-**	**-**	**-**	**725 866**	**709 378**	**16 488**
- Unlisted debentures	16 488	-	-	-	-	16 488	-	16 488
- Listed equities	258 136	-	-	-	-	258 136	258 136	-
- Listed fixed interest bonds	396 552	-	-	-	-	396 552	396 552	-
- Listed investment property funds	54 690	-	-	-	-	54 690	54 690	-
Assets not measured at fair value	**-**	**588 522**	**-**	**-**	**219 688**	**808 210**		
Cash and cash equivalents: Medical Scheme assets	-	579 636	-	-	-	579 636		
Trade and other receivables *	-	8 886	-	-	219 688	228 574		
Liabilities not measured at fair value	**-**	**-**	**(3 844)**	**(214 155)**	**(190 122)**	**(408 121)**		
PMSA trust liability	-	-	-	(214 155)	-	(214 155)		
Outstanding risk claims provision	-	-	-	-	(161 183)	(161 183)		
Trade and other payables *	-	-	(3 844)	-	(28 939)	(32 783)		
	725 866	**588 522**	**(3 844)**	**(214 155)**	**29 566**	**1 125 955**		

23 Financial risk management *(continued)*

Financial Instruments – Fair values and risk management

Fair value estimation

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Scheme for similar financial instruments.

Fair value of financial instruments

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

Level 1:
Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2:
Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable for the asset and liability from market data.

Level 3:
Valuation techniques using significant unobservable inputs for the fair value measurement of an asset or a liability. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair values and categories of financial assets and financial liabilities are disclosed on page 97.

Type	Valuation technique
Listed equity, bonds, investment property funds, debentures	These financial instruments are valued using the closing prices of the exchange on which they trade.
Unlisted debentures and bonds	Unlisted debenture and bond instruments are valued using a yield curve created by the asset management accounting system based on certain inputs, to discount cash flows, in order to determine the securities present value. This yield curve consists of published zero yield indices derived from observed market interest rates that represent the most liquid and dominant instrument for their respective horizons. These zero yields are combined into a standard periodicity, and linear interpolation used to fill time periods not available from the list of input yield index instruments.

Capital adequacy risk

This represents the risk that there are insufficient reserves to provide for adverse variations on future investment and claims experience. At the year-end the accumulated funds ratio computed in terms of the Registrar's formula was 43.43% (2018: 31.42%). The Board believes that this cover is appropriate for the Scheme's needs.

24 Events after the reporting date

The Scheme are aware of the following events after the reporting date:

COVID-19
On 31 December 2019, the World Health Organisation (WHO) China Country Office was informed of cases due to an unknown cause detected in Wuhan City, Hubei Province of China, which was later identified on 7 January 2020 as a novel coronavirus (COVID-19). The first South African case was confirmed on 5 March 2020. The patient was part of a group of 10 people who arrived back from Italy on 1 March 2020 and since then further cases have been confirmed. WHO recently declared COVID-19 a worldwide pandemic.

Fedhealth is on the alert for any emerging risks of this pandemic and will constantly review and align its internal processes and procedures to ensure that Fedhealth members are supported to receive the care they need. The Scheme is in close communication with our network facilities and practitioners and all role-players know how to deal with the various scenarios, in line with the Department of Health guidelines. There are designated hospitals in both the public and private sector where Fedhealth patients can be admitted in line with clearly defined protocols in the event of being faced with identified or potential cases. The Scheme is in further negotiations with pathology and radiology laboratories to ensure that standard operating procedures are clearly defined and that the best rates are negotiated.

The administrator has a task team that is tracking events as they happen and updating operations. Fedhealth can confirm that a positive diagnosis of COVID-19 is a notifiable condition, and that that the Scheme will cover costs for supportive treatment and hospitalisation as Prescribed Minimum Benefits (PMBs), subject to scheme rules (formularies etc.) per option.

Stock Market Crash
Global Stock Markets crashed on 9 March 2020. The markets having fallen further substantially since then. Notable contributing factors include the COVID–19 pandemic and the Russia-Saudi Arabia oil price war.

The Scheme will engage with the Investment Portfolio managers to monitor the effects of this on the Scheme's investments.

25 Contingent assets and liabilities

Contingent assets

There are currently 81 open (2018: 117) new road accident cases totalling R23.8m (2018: R22.0m) since 2017 managed by Medscheme. Batsumi Claims Management Solutions (Pty) Ltd will continue to wind down the 293 (2018: 492) outstanding road accident claims totalling R58.2m (2018: R87.8m) relating to the period before Medscheme took over from Batsumi. Berkowitz Cohen Wartski Attorneys (BCW) are currently managing the Topmed 128 cases totalling R22.8m.

Due to the uncertain outcome of claims to the RAF, the Scheme has not yet accounted for the inflow of economic benefits.

Contingent liabilities

The Scheme has no contingent liabilities.