We let **you** be **YOU**

ANNUAL FINANCIAL REPORT

for the year ended **31 December 2018**

FEDHEALTH

CONTENTS

REPORT OF THE BOARD OF TRUSTEES

The Board of Trustees has pleasure in presenting its report for the year ended 31 December 2018

1 Description of Fedhealth Medical Scheme

1.1 Terms of registration

Fedhealth Medical Scheme (the Scheme) 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, Blue Door Plus. The product ranges includes ***Comprehensive options*** (Ultimax, Maxima Plus, Maxima Exec, Maxima Standard and Maxima Standard ^{ELECT}), ***Maxima Saver options*** (Maxima Advance, Maxima Basis and Maxima Basis ^{GRID}, Maxima Saver and Saver ^{GRID} and Maxima EntrySaver) and the ***Hospital options*** (Maxima Core and Maxima Core ^{GRID} and Maxima EntryZone). The ***Comprehensive options*** includes day-to-day benefits paid from risk (out-of-hospital expense benefit (OHEB) and threshold), the ***Maxima Saver option*** includes day-to-day benefits paid from savings only and the ***Hospital options*** exclude 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.

The Scheme embarked on a new option structure for 2019 to address the challenges currently facing it as well as other medical schemes within the South African medical schemes industry. The proposed 2019 structure will include option consolidations and three new product ranges as per the table below:

maxiFED	2019	maxima EXEC		maxima EXEC^{GRID}
	2018	Maxima Exec		Not applicable
	2019		maxima PLUS	
	2018		Ultimax and Maxima Plus	
flexiFED	2019	flexiFED 1	flexiFED 1^{Elect}	Not applicable
	2018	Maxima EntryZone and Maxima EntrySaver		Not applicable
	2019	flexiFED 2	flexiFED 2^{Elect}	flexiFED 2^{GRID}
	2018	Maxima Saver	Not applicable	Maxima Saver^{GRID}
	2019	flexiFED 3	flexiFED 3^{Elect}	flexiFED 3^{GRID}
	2018	Maxima Basis and Maxima Core	Not applicable	Maxima Basis^{GRID} and Maxima Core^{GRID}
	2019	flexiFED 4	flexiFED 4^{Elect}	flexiFED 4^{GRID}
	2018	Maxima Standard and Maxima Advance	Maxima Standard^{Elect}	Not applicable
myFED	2019		myFED	
	2018		Blue Door Plus	

1 Description of Fedhealth Medical Scheme *(continued)*

1.3 Personal medical savings accounts (PMSA)

The Scheme offers members a savings account on the Ultima and certain Maxima options as set out above. 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 (2017: 7.61% based on underlying investments) on their accumulated savings. The PMSA interest rule was amended after the judgement of the Constitutional Court was rendered on 6 June 2017 in favour of Genesis Medical Scheme (Genesis) that the funds in PMSA can be treated as assets of the Scheme, these funds are not entitled to earn interest unless the Board agrees.

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.

PMSA investments form part of the Scheme's assets from 1 January 2018 as the 2018 rules no longer specify that PMSA funds remain the property of the members.

1.4 Risk transfer arrangement

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

Iso Leso Optics Ltd

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

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 Blue Door Plus members.

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

REPORT OF THE BOARD OF TRUSTEES *(continued)*

1 Description of Fedhealth Medical Scheme *(continued)*

1.5 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.

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)	Re-appointed 28 June 2018
J Cloete	Trustee	
M Duly	Trustee	
G Eloff	Trustee	
P Hemus	Trustee	Re-appointed 28 June 2018
Dr M Mojapelo-Mokotedi	Trustee	
C Norton	Trustee	Re-appointed 28 June 2018
N Parker	Trustee	

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

2 Management *(continued)*

2.5 Scheme administrator during the year

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

Private Bag X3045
Randburg
2125

Administrator accreditation number: 21

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

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: 18427

2 Management *(continued)*

2.7 Investment managers during the year *(continued)*

Taquanta Asset Management (Pty) Ltd 7th Floor, Newlands Terraces Boundary Road, Newlands Cape Town 7700	P O Box 23540 Claremont 7708

Financial service provider number: 618

Sanlam Investment Management (Pty) Ltd 55 Willie van Schoor Avenue Bellville 7536	Private Bag X8 Tyger Valley 7530

Financial service provider number: 579

Truffle Asset Management (Pty) Ltd Ground Floor, Lancaster Building Hyde Park Lane Business Complex Hyde Lane (parallel to William Nicol Drive) Corner William Nicol Drive and Jan Smuts Avenue Hyde Park 2196	P O Box 535 Pinegowrie 2123

Financial service provider number: 36584

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

Financial service provider number: 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

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
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 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.

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 returns of 5.4% (2017: 10.0%) over the calendar year of 2018 for the invested funds, against the inflation rate of 4.4% (2017: 4.7%) and the Scheme's internal benchmark (CPI +3.5%) of 7.9% (2017: 8.2%). The Scheme did not meet the internal target of CPI +3.5% during 2018, but was able to outperform inflation for the year, even though investment markets were extremely tough. The return over the last 3 years (2016 - 2018) were 7.1% (2017: 7.9%, 2016: 7.0%) against a benchmark of 9.0% (2017: 9.1%, 2016: 9.4%).

The Scheme had an effective equity asset exposure (excluding property) of 19.7% at 31 December 2018 (2017: 20.2%). The weighted average interest earned on cash and cash equivalents was 7.5% (2017: 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 managers. The Council renewed the exemption in 2018, as none of these companies has any influence over the Scheme and the Scheme does not have any influence over these entities in which it holds investments.

In 2018, the FTSE / JSE All Share Index fell by -8.5% (2017: +21.0%) and other indices were down even more. This was not a conducive environment for investing in equities. Truffle Asset Management (Pty) Ltd portfolio (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 avoided a negative return and posted a return of 2.4%.

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

The Sanlam Investment Management (Pty) Ltd (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. 2018 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 2.1%.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2018 financial year.

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: M Govender
Trustee: T Jackson
Trustee: N Parker

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 King III Assessment during 2017, the Board conducted a 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 2018 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: T Jackson
Trustee: P Hemus
Trustee: M Govender

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;
- set the overall policy for remuneration packages of the Board and its committees;
- set 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 2018 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

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;

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 2018 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 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 2018 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: C Norton

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 2018 financial year.

5 Scheme Committees *(continued)*

5.7 Managed Healthcare Committee *(continued)*

The Managed Healthcare Committee comprises:
Chairman: Dr M Mojapelo-Mokotedi
Trustee: M Duly
Trustee: T Jackson
Trustee: C Norton
Trustee: N Parker

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 2018 financial year.

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 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	10	1	0	4	3			5	4	2	2			3	3	**36**	**32**
M Govender (Vice Chairman) (Re-appointed 28 June 2018)	10	10	11	10	1	1			7	6			2	1			3	3	**34**	**31**
J Cloete	10	9	11	9			2	2	7	6	1	1			1	1			**32**	**28**
M Duly	10	10							7	7	5	5			2	2			**24**	**24**
G Eloff	10	10			3	3	4	4			1	1					3	3	**21**	**21**
P Hemus (Re-appointed 28 June 2018)	10	9					4	4					2	2					**16**	**15**
M Mojapelo-Mokotedi	10	9									5	5							**15**	**14**
C Norton (Re-appointed 28 June 2018)	10	10							7	5	5	5			2	0			**24**	**20**
N Parker	10	10									5	5	2	2			3	3	**20**	**20**
Independent: P Brink					4	4													**4**	**4**
Independent: H Kajie					4	3													**4**	**3**
Independent: B Phillips					4	4													**4**	**4**

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

6 Scheme Activities at the end of the accounting year

6.1 Operational statistics

	Ultimax	Maxima Plus	Maxima Exec	Maxima Standard	Maxima Standard Elect	Maxima Advance	Maxima Basis	Maxima Saver	Maxima Entry Saver	Maxima Core	Maxima Entry Zone	Blue Door Plus	SUB TOTAL
2018													
Number of members (n)	168	1 180	3 992	20 661	583	2 265	5 963	5 219	13 965	6 984	4 300	4 487	**69 767**
Number of beneficiaries (n)	246	1 841	7 035	41 447	1 239	3 852	11 692	11 487	30 405	13 421	8 333	6 911	**137 909**
Number of dependants (n)	78	661	3 043	20 786	656	1 587	5 729	6 268	16 440	6 437	4 033	2 424	**68 142**
Average number of members (n)	176	1 228	4 108	21 340	596	2 329	6 167	5 214	13 038	7 252	4 185	4 312	**69 945**
Average number of beneficiaries (n)	259	1 932	7 267	42 995	1 265	3 999	12 080	11 451	28 355	1 932	8 004	6 510	**126 049**
Dependant ratio to members (n)	0.46	0.56	0.76	1.01	1.13	0.70	0.96	1.20	1.18	0.92	0.94	0.54	**0.98**
Risk contribution *pan of beneficiaries **pm (R)	8 753	6 352	3 814	2 105	1 544	2 878	1 798	1 368	1 011	1 769	1 127	956	
Average age of beneficiaries (yrs)	66	62	55	42	36	61	39	31	28	47	35	32	
Pensioner ratio (%)	64.6%	55.9%	41.0%	16.9%	11.6%	51.9%	13.6%	6.2%	2.7%	27.0%	8.4%	6.5%	
2017													
Number of members (n)	209	1 382	4 666	22 657	615	2 544	6 522	4 806	10 950	7 646	4 190	4 476	**70 663**
Number of beneficiaries (n)	309	2 185	8 460	46 379	1 333	4 411	12 901	10 458	23 841	14 939	7 923	6 822	**139 961**
Number of dependants (n)	100	803	3 794	23 722	718	1 867	6 379	5 652	12 891	7 293	3 733	2 346	**69 298**
Average number of members (n)	215	1 416	4 815	23 328	650	2 634	6 733	4 708	9 946	7 976	4 206	4 443	**71 070**
Average number of beneficiaries (n)	309	2 245	8 801	47 936	1 430	4 596	13 337	10 251	21 779	15 699	7 856	6 858	**141 097**
Dependant ratio to members (n)	0.48	0.58	0.81	1.05	1.17	0.73	0.98	1.18	1.18	0.95	0.89	0.52	**0.98**
Risk contribution pan of beneficiaries pm (R)	7 900	5 667	3 344	1 898	1 376	2 568	1 637	1 256	938	1 589	1 047	893	
Average age of beneficiaries (yrs)	60	46	31	38	28	54	66	61	31	41	35	35	
Pensioner ratio (%)	49.7%	23.6%	4.2%	12.2%	2.7%	37.8%	64.1%	53.5%	5.2%	45.3%	10.5%	7.5%	

**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. Operational statistics *(continued)*

	Ultimax	Maxima Plus	Maxima Exec	Maxima Standard	Maxima Standard Elect	Maxima Advance	Maxima Basis	Maxima Saver	Maxima Entry Saver	Maxima Core	Maxima Entry Zone	Blue Door Plus
2018												
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 (%)	91%	97%	103%	87%	54%	102%	84%	80%	72%	87%	68%	103%
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 of gross contributions - Claims ratio (%)	85.6%	91.3%	95.9%	72.5%	46.7%	91.9%	71.3%	71.2%	61.5%	88.8%	67.5%	91.3%
Non-healthcare expenditure pan of beneficiaries pm (R)	321	307	270	246	224	276	248	222	221	249	161	162
Non-healthcare expenditure as a percentage of gross contributions (%)	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%
	Ultimax	**Maxima Plus**	**Maxima Exec**	**Maxima Standard**	**Maxima Standard Elect**	**Ultima 200**	**Maxima Basis**	**Maxima Saver**	**Maxima Entry Saver**	**Maxima Core**	**Maxima Entry Zone**	**Blue Door Plus**
2017												
Average managed care pan of members pm (R)	102	102	99	94	90	91	91	90	88	89	47	49
Average managed care pan of beneficiaries pm (R)	69	64	54	46	41	52	46	41	40	45	25	32
Net claims as a percentage of net contributions (%)	83.2%	95.3%	106.7%	82.4%	76.2%	99.5%	76.1%	77.2%	65.3%	83.1%	57.2%	76.4%
Relevant healthcare expenditure pan of beneficiaries pm (R)	6 606	5 531	3 591	1 582	1 070	2 602	1 293	972	628	1 316	637	696
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)	79.3%	92.3%	99.6%	68.4%	63.9%	91.3%	67.3%	66.0%	56.5%	82.8%	60.9%	78.0%
Non-healthcare expenditure pan of beneficiaries pm (R)	287	271	234	214	196	244	218	198	195	218	146	141
Non-healthcare expenditure as a percentage of gross contributions (%)	3.4%	4.5%	6.5%	9.2%	11.7%	8.6%	11.3%	13.4%	17.5%	13.7%	13.9%	15.8%
Average chronic profile (%)	62.5%	54.6%	44.1%	26.6%	19.3%	37.7%	16.4%	9.6%	5.6%	16.9%	7.1%	5.9%

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

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

6.1 Operational statistics *(continued)*

	SUB TOTAL	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 (%)		73.7%	60.8%	106.0%	**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%**

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

6.1 Operational statistics (*continued*)

2017	SUB TOTAL	Maxima Basis Grid	Maxima Saver Grid	Maxima Core Grid	Dynamic Saver	Dynamic Hospital	GRAND TOTAL
Number of members (n)	70 663	337	634	303	27	16	**71 980**
Number of beneficiaries (n)	139 961	725	1 414	563	46	19	**142 728**
Number of dependants (n)	69 298	388	780	260	19	3	**70 748**
Average number of members (n)	71 070	312	505	301	10	6	**72 204**
Average number of beneficiaries (n)	141 097	736	1 083	561	11	9	**143 497**
Dependant ratio to members (n)	0.98	1.15	1.23	0.86	0.70	0.19	**0.98**
Average age of beneficiaries (yrs)		40	30	53	28	34	**39**
Pensioner ratio (%)		18.1%	6.3%	36.4%	2.2%	10.5%	**14.9%**
Risk contribution per average number of beneficiaries pm (R)		1 337	1 171	1 483	1 089	793	**35 987**
Average managed care per average number of members pm (R)		90	88	89	35	31	**87**
Average managed care per average number of beneficiaries pm (R)		38	41	48	41	34	**44**
Net claims as a percentage of net contributions (%)		63.6%	66.2%	72.5%	42.4%	26.5%	**83.4%**
Relevant healthcare expenditure pan of beneficiaries pm (R)		938	816	1 182	723	405	**1 457**
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)		59.7%	59.3%	79.7%	55.7%	51.1%	**74.2%**
Non-healthcare expenditure pan of beneficiaries pm (R)		180	200	227	238	201	**206**
Non-healthcare expenditure as a percentage of gross contributions (%)		11.5%	14.5%	15.3%	18.3%	25.3%	**10.5%**
Average chronic profile (%)		22.4%	12.2%	28.1%	4.7%	1.5%	**20.0%**

7 Review of the accounting year's activities

7.1 Operational statistics

	2018	2017
Accumulated funds per member at 31 December (R)	**15 338**	15 079
Amount paid to administrator (R'000)		
- Administration fees	**242 825**	225 451
- Managed care programme	**72 824**	66 408
Broker service fees (R'000)	**61 924**	56 443
Number of principal members joining the Scheme (n)	**16 794**	15 223
Number of principal members leaving the Scheme (n)	**15 966**	16 723
Return on investments as a percentage of investments (%) *	**5.40**	10.04

*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 the following clarification is required to explain key differences between the current and prior financial year:

Personal medical savings accounts (PMSA)

Prior to 2018, the Council instructed schemes, through Circular 38 of 2011, to invest the aggregate of the PMSA trust liability accounts in separate bank accounts to those of the Scheme. The Council also required schemes to credit the net interest earned to the respective underlying members and not to the Scheme.

During 2017 the Council issued a circular noting the Constitutional Court judgement on the appeal matter brought by Genesis against the Registrar of Medical Schemes and the Council. The judgement of the Constitutional Court on 6 June 2017 was in favour of Genesis in that the funds in PMSA can be treated as assets of the medical scheme, and members of the medical scheme are not entitled to earn interest on the portion of the money in the PMSA. However, if the Scheme rules state that PMSA funds belong to members, a trust relationship is created, which means the PMSA trust monies need to be account for separately and accounting disclosure required by the Council before the Constitutional Court judgement will apply.

The Scheme amended its rules for 2018 by no longer specifying that PMSA funds remain the property of the members. The Scheme pays PMSA interest at 4% on active accumulated savings as from 1 January 2018. PMSA investments are no longer treated separately from the Scheme's assets as from 1 January 2018 but are included to the Scheme's assets.

Consequent to this change, the Scheme wrote back R27.3m in prescribed unclaimed savings during the year refer to Note 6 of the financial statements.

Trade and other receivables – Contributions receivable

Contribution receivables increased compared to December 2017 due to the arrear raising only being collected on the 2 January 2019 compared to the early collection which was done on 31 December 2017 in the prior year. The Scheme is still satisfied with the recoverability of this balance.

REPORT OF THE BOARD OF TRUSTEES ***(continued)***

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

7.2 Results of operations *(continued)*

	2018 R'000	2017 R'000
Members' funds per statement of financial position	**1 125 955**	1 115 022
Less:		
Available-for-sale revaluation reserve (Cumulative net unrealised gains on re-measurement to fair value of financial instruments included in members' funds)	**(9 192)**	(29 638)
Accumulated funds per Regulation 29	**1 116 763**	1 085 384
Gross contributions	**3 554 438**	3 382 167
Accumulated funds ratio (%)	**31.42**	32.09

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 actuary of the Scheme during the year was A Brownlee, FFA FASSA, an employee of Medscheme Holdings (Pty) Ltd. He was consulted in the determination of the contribution and benefit levels for 2018 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 the value of R200m, 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.

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 proposed amalgamation of Fedhealth and Topmed Medical Scheme (Topmed) in accordance with Section 63 of the Act is currently under review by the Council and the Competition Commission.

The Boards of both schemes approved the amalgamation based on an independent actuarial review undertaken by Cadiant Partners Actuarial and Consulting Solutions (Pty) Ltd (Cadiant Partners). The review confirms that the amalgamation will be in the best interest of the members of both schemes. Cadiant Partners are the current actuaries to Topmed and have therefore recommended to the Board of Topmed to proceed with the amalgamation with Fedhealth. The proposed effective date of the amalgamation is 1 June 2019.

14 Business strategy

With the challenges of increasing healthcare costs, an underperforming economy and stagnant yet ageing medical scheme membership, as well as the uncertainty created by the National Health Insurance proposals, the Board was of the opinion that positive steps had to be taken. The statement of strategic intent, ***Maximise member value through innovation and managing the risk pool,*** was diligently applied and at the end of 2018 a revolutionary medical scheme concept was launched.

Innovation

At the heart of the concept the intention was to allow members more flexibility in determining what benefits were required and how much they wished to contribute towards them. A range of Efficiency Discount Options was introduced, with members able to avail themselves of significant discounts if they chose to make use of network providers. Day-to-day benefits were catered for with the introduction of a MediVault and Wallet, allowing members to choose when to access the funding and how much they needed. Members could choose to self-fund certain procedures or to access funds from the Scheme if further funding was required.

The concept was well received at its launch but as with any innovation, it can take some time getting used to. The Board is confident that the new structure will prove to be very popular as it can result in significant cost savings for members.

During the course of 2019 management of the Scheme will continue to investigate other innovative initiatives. While any future initiatives may not be as far-reaching as those implemented in 2019, the Board wishes to pursue the theme of innovation in order to address the multiple challenges facing members.

Partnerships

The Board continued to foster the close working relationship with Sanlam Ltd (Sanlam) that had started 4 years ago. The powerful Sanlam brand is a great strategic partner and the distribution network of Sanlam agents will allow the Scheme to be brought to the attention of a number of potential clients. At the same time alignment can be achieved with the full suite of financial services products that complement the Fedhealth medical options, particularly in light of the new funding concept.

The Scheme anticipates building on the relationship, with Sanlam prepared to recommend the Scheme to its clients. A closer brand relationship between Sanlam and Fedhealth will be established to promote the integrated product offering effectively. This is an important development for the Scheme if it is to compete successfully with some of the other medical schemes that have affiliations to large financial services provider houses.

14 Business strategy *(continued)*

Amalgamation

During the course of 2018 the Boards of Fedhealth and Topmed engaged in amalgamation discussions with a view to amalgamating the respective schemes during the first half of 2019. The age and risk profiles of the schemes were similar, and while Topmed had not been able to attract large numbers of new members to their scheme, the reserves of Topmed were considerable. By amalgamating the two schemes, the new entity, which would retain the Fedhealth name, would be better positioned to face some of the challenges of cost management and hospital negotiations.

The business case for the amalgamation is currently at the office of the Registrar of Medical Schemes and the amalgamation is anticipated to take place on 1 June 2019.

The Scheme is open to other amalgamation prospects as the indications from the Council and the Department of Health are that consolidation of medical schemes is favoured. In this regard consideration is to be given to those closed or in-house schemes which would prefer to be part of a larger risk pool, as well as smaller open schemes which would want to be able to offer more benefit choices to their members. However the Board will always ensure that any amalgamation would have to be in the best interests of Fedhealth members before being considered further.

Digital strategy

In the age of the 4th Industrial Revolution it is essential that the Scheme stays abreast of opportunities and is aware of any threats that the digital age presents. During 2018 the Scheme launched the Family Room, an internet portal that allows members to interact with the Scheme and manage many of their functions without having to go through a call centre or a walk in centre.

The Family Room also allows the Scheme to engage with members on a more personalised and informative level. Communications about baby issues and parenting are directed at those expecting or with young children, while disease specific discussions can be held with those with the condition or at risk of acquiring it. The Family Room is also used as a tool to gather behaviour data about our membership in order to develop more consumer focused products, services and engagement mechanisms.

Managing risk

Ensuring comprehensive and cost effective cover for medical treatment is essential for the long term sustainability of the Scheme. Members and doctors are often concerned that the Scheme is interfering in their treatment plans, but the Scheme's managed care organisation brings a wealth of expertise in ensuring that members get the most appropriate care for the benefit option that they have chosen.

Non–communicable diseases (NCD's) are on the increase globally and are estimated to account for 43% of total deaths in South Africa (WHO 2014). The increase in prevalence of these diseases is likely as a result of lifestyle changes, changing socio-economic status, urbanisation, member apathy and an increased rate of obesity evident in South Africa.

The level of disease inherent within the Fedhealth population is worsening and this has a direct impact on the claims experience of the Scheme. The Fedhealth population is relatively old and this factor combined with the current global trend of NCD's becoming evident earlier in life does not bode well for the future claims experience (and health status) of the Scheme.

The ongoing approach to offer a range of treatment programmes to members has proven to be very effective in not only managing costs but also improving quality of care and successful clinical outcomes. Last year it was calculated that, based on measurable savings only, 2017 risk claims would have been at least 7.7% higher (R190.3m), and contributions at least 6.4% higher, in the absence of managed care. Some of the initiatives (in addition to the standard hospital, medicine and oncology benefit management) include:

14 Business strategy *(continued)*

Managing Risk *(continued)*

Home based care
Members and their care givers are trained on how to manage their conditions from home. Not only is this arrangement often more conducive for recovery, it also offers receptive patients a choice, while also reducing the in-hospital costs. Initial results have been very positive and where appropriate the Scheme will continue to encourage this approach.

Paed IQ
A telephonic programme supporting parents of young children, giving them telephonic access to paediatric expertise for a number of queries.

Flu and pneumonia vaccines
Addressing at-risk members of the importance of these vaccines and dispelling some of the misconceptions about the alleged side effects that they pose. If more members received the vaccinations the number of hospital admissions could be significantly reduced. Preventative care is a key step in achieving a healthier population. Uptake of these benefits remains low and closing the intention-action gap remains a challenge. In an endeavour to breach this intention-action gap, the feasibility of an online booking system is being considered.

Mental health
Ensuring members get the appropriate care from properly qualified facilities is crucial to addressing what is turning into one of the most common causes of hospitalisation. The programme also seeks to address some of the stigma and social issues that still accompany the diagnosis of a mental illness, and seeks to focus on out-of-hospital care.

Weight management
Obesity is well known to be related to a number of serious health conditions, but it is also well known that it is difficult to reduce weight without adequate support and information. The weight management programme adopts a holistic approach to life-style, disease management and emotional attitude, to decrease the chances of weight fluctuations.

Smoking cessation
As with weight, the effects of smoking are well known and it is just as hard for people to stop smoking. The smoking cessation programme gives a structured approach to reducing and then stopping smoking, with the main objective being that participants on the programme do not relapse.

Expansion of coordination of care – Integrated Chronic Care (ICC)
Research shows that improvement in care coordination has the potential to greatly enhance the impact of disease management. In essence the ICC programme aims not only to integrate different managed care interventions, but also to align the intensity of healthcare services appropriately to the level of disease severity and risk. In order to realise the true potential of this initiative to improve health outcomes and eventually reduce the downstream cost of healthcare provision at a large scale, it is proposed that the ICC programme be expanded to include more high risk beneficiaries and General Practitioners and this will be a key focus starting during 2019.

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 administrator implemented FICO Blaze Advisor™ (Blaze) decision management system on 16 November 2017 under their claims assessing project to manage fraud, waste and abuse effectively as well as enhancing the existing claims and reimbursement management capabilities. The decision engine has the ability to evaluate the validity and eligibility of a claim, whilst the existing administration system, Nexus, continues to apply the benefit and limit checks as well as the pricing and payment of the claim. Despite the testing performed on the Blaze system and a "parallel run" of the old and new rules engines, various issues were experienced since the implementation which resulted in certain claims being incorrectly rejected or short paid.	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. System faults have been corrected and all claims identified as incorrectly rejected or short paid since the implementation of the Blaze decision management system were reassessed and paid by the end of February 2018.

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
15.3 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.
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 Life Healthcare Group Holdings Ltd, Discovery Holdings 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.

REPORT OF THE BOARD OF TRUSTEES *(continued)*

Non-compliance matters *(continued)*

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
15.5 Prescribed Minimum benefit (PMB) claims paid from savings		
Regulation 8 of the Act, stipulates that schemes are required to fund PMB conditions at full invoice price. Therefore PMB claims cannot be funded by the member's personal medical savings account. Certain claim exceptions were found at the beginning of the financial year on the Maxima Entry Saver, Maxima Basis Grid and Maxima Saver Grid option where PMB claims were paid out of savings. The linking had been changed for the different benefit plans where "PMB not applicable" was ticked during the setup of Non and Out of area consults for the Network Plan Groups	The scheme is non-compliant with Regulation 8 of the Act and will be liable for the PMB claims relating to Network consultations paid from the members medical savings account for these three options.	The administrator corrected the system link to PMB payment for these three options for Non and Out of area Network consults. The impacted claims were corrected and paid accordingly.

T Jackson – Chairman

28 March 2019

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 94 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 28 March 2019 and are signed on its behalf by:

T Jackson - Chairman	M Govender - Trustee	J Yatt – Principal Officer

28 March 2019

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

28 March 2019

KPMG

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
Internet 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 94, which comprise the statement of financial position as at 31 December 2018, 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, the financial statements present fairly, in all material respects, the financial position of Fedhealth Medical Scheme as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

Basis for Opinion

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

Key Audit Matters

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

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.	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.

KPMG

The key audit matter	How the matter was addressed in our audit
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.	• 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 1.3 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 involvement of the actuary and the significant estimation involved in determining the provision.
	Our audit procedures performed included the following:
	• We used our own actuarial specialists and:
	  • evaluated the appropriateness of the methodology used in determining the provision against best practice.
	  • 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.
	  • 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 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. 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 16 years.

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

KPMG Inc.

Per LW Grobler
Chartered Accountant (SA)
Registered Auditor
Associate Director
29 March 2019

STATEMENT OF FINANCIAL POSITION

	Note	2018 R'000	2017 R'000
Assets			
Non-current assets		**725 866**	591 322
Available-for-sale investments	2	**725 866**	591 322
Current assets		**808 210**	919 353
Trade and other receivables	3	**228 574**	56 213
Cash and cash equivalents		**579 636**	863 140
Medical Scheme assets	4	**579 636**	661 403
PMSA trust monies*	6	**-**	201 737
Total assets		**1 534 076**	1 510 675
Funds and liabilities			
Members' funds		**1 125 955**	1 115 022
Accumulated funds		**1 116 763**	1 085 384
Available-for-sale revaluation reserve		**9 192**	29 638
Current liabilities		**408 121**	395 653
Outstanding risk claims provision	5	**161 183**	144 930
PMSA liability*	6	**214 155**	216 529
Trade and other payables	7	**32 783**	34 194
Total funds and liabilities		**1 534 076**	1 510 675

** PMSA: Personal medical savings accounts*

STATEMENT OF COMPREHENSIVE INCOME

	Note	2018 R'000	2017 R'000
Risk contribution income	8	**3 109 603**	2 963 837
Relevant healthcare expenditure		**(2 779 901)**	(2 574 922)
Net claims incurred		**(2 780 354)**	(2 575 248)
Risk claims incurred	9	**(2 787 527)**	(2 581 108)
Third party claim recoveries		**7 173**	5 860
Net income on risk transfer arrangement	10	**453**	326
Risk transfer arrangement premiums paid		**(885)**	(875)
Recoveries from risk transfer arrangement		**1 338**	1 201
Gross healthcare result		**329 702**	388 915
Broker service fees		**(61 924)**	(56 443)
Administration expenditure	11	**(338 925)**	(298 803)
Net impairment loss on healthcare receivables	12	**(12 329)**	(5 683)
Net healthcare result		**(83 476)**	27 986
Other income		**127 283**	95 715
Investment income	13	**96 051**	93 961
Medical Scheme		**96 051**	79 283
PMSA trust monies		**-**	14 678
Sundry income	14	**31 232**	1 754
Other expenditure		**(12 428)**	(19 889)
Asset management fees	15	**(5 903)**	(5 211)
Interest on PMSA liability		**(6 525)**	(14 678)
Net surplus for the year		**31 379**	103 812

	Note	R'000	R'000
Other comprehensive income			
Net fair value adjustment on available-for-sale investments	2	**(20 868)**	19 848
Reclassification adjustment of losses/(gains) on disposal of available-for-sale investments*	13	**422**	(2 776)
Total other comprehensive income for the year		**(20 446)**	17 072
Total comprehensive income for the year		**10 933**	120 884

** 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 2017	12 566	981 572	994 138
Total comprehensive income for the year			
Net surplus for the year	-	103 812	103 812
Other comprehensive income			
Fair value reserve available-for-sale financial assets			
Net unrealised gains for the year (Note 2)	19 848	-	19 848
Fair value realised on disposal (Note 13)	(2 776)	-	(2 776)
Total other comprehensive income	17 072	-	17 072
Total comprehensive income for the year	17 072	103 812	120 884
Balance as at 31 December 2017	29 638	1 085 384	1 115 022
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 losses 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**

STATEMENT OF CASH FLOWS

	Note	2018 R'000	2017 R'000
Cash flow from operating activities			
Cash flows (utilised in)/generated from operations before working capital changes	17	**(51 903)**	44 914
Working capital changes			
(Increase)/decrease in trade and other receivables		**(178 606)**	142 553
(Decrease)/increase in trade and other payables		**(1 411)**	6 168
Increase in outstanding risk claims provision		**16 254**	31 869
(Decrease)/increase in PMSA liability		**(2 374)**	30 571
Cash (utilised in)/generated from operations		**(218 040)**	256 075
Interest paid on PMSA liability	6	**(6 525)**	(14 678)
Net cash (outflow)/inflow from operating activities		**(224 565)**	241 397
Cash flows from investing activities			
Additions to available-for-sale investments	2	**(793 161)**	(550 396)
Available-for-sale investment management fees	2	**5 098**	4 644
Proceeds on disposal of available-for-sale investments	2	**632 651**	575 790
Interest received	13	**84 160**	63 352
Dividends received	13	**12 313**	13 155
Net cash (outflow)/inflow from investing activities		**(58 939)**	106 545
Net (decrease)/increase in cash and cash equivalents		**(283 504)**	347 942
Cash and cash equivalents at the beginning of the year		**863 140**	515 198
Cash and cash equivalents at the end of the year		**579 636**	863 140
Medical Scheme assets	4	**579 636**	661 403
PMSA trust monies	6	**-**	201 737
Cash and cash equivalents at the end of the year		**579 636**	863 140

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 2018 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 28 March 2019.

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.

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.

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.

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.

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.

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). 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.

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.

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 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;
- Sundry income; and
- Asset management fees.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2 Available-for-sale investments	2018 R'000	2017 R'000
Acquisition cost	**561 683**	588 946
Unrealised gain on revaluation	**29 639**	12 566
Fair value at the beginning of the year	**591 322**	601 512
Additions to investments	**793 161**	550 396
Investment management fees	**(5 098)**	(4 644)
Disposal at fair value at date of sale	**(632 651)**	(575 790)
Net unrealised (losses)/gains for the year	**(20 868)**	19 848
Fair value at the end of the year	**725 866**	591 322
The investments included above represent investments in:		
Unlisted debentures	**16 488**	11 337
Listed equities	**258 136**	265 293
Listed fixed interest bonds	**396 552**	253 999
Listed investment property funds	**54 690**	60 693
	725 866	591 322

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 22.

3 Trade and other receivables	2018 R'000	2017 R'000
Insurance receivables		
Contributions receivable*	**218 275**	44 727
Members co-payments receivable	**13 540**	6 791
Provider debts receivable	**1 748**	3 450
Financial receivables		
Advances on PMSA (Note 6)	**1 065**	782
Loans and receivables		
Aid for Aids	**3**	-
Amounts owing by the administrator	**2 265**	-
Investment income receivable	**5 553**	803
Investment income receivable PMSA	**-**	6 871
RAF recovery	**-**	442
	242 449	63 866
Insurance receivables		
Less: Impairment losses	**(13 875)**	(7 653)
Balance at the beginning of the year	**(7 653)**	(1 947)
Amounts utilised during the year	**7 171**	3 296
Net movement in impairment (Note 12)	**(13 393)**	(9 002)
Total Trade and other receivables	**228 574**	56 213

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.

*Contributions increased in comparison to 2017, due to the arrear raising only being collected on the 2 January 2019 compared to the early collection in December 2017.

4 Cash and cash equivalents - Medical Scheme assets	2018 R'000	2017 R'000
Call accounts	**60 479**	96 432
Current accounts	**37 637**	178 349
Fixed deposits	**80 000**	-
Money market investments	**401 520**	386 622
	579 636	661 403

The weighted average effective interest rate on cash and cash equivalents was 6.85% (2017: 7.00%). Call accounts have an average maturity of one day (2017: one day). The return on money market investments is benchmarked against the STeFi. Refer to page 87 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	2018 R'000	2017 R'000
Not covered by risk transfer arrangements		
Provision for outstanding risk claims - Incurred but not reported (IBNR)	**161 183**	144 930
Analysis of movement in outstanding risk claims provision		
Balance at beginning of the year	**144 930**	113 062
Payments in respect of the previous year	**(167 126)**	(121 863)
Under provision in the previous year (Note 9)	**(22 196)**	(8 801)
Adjustment for the current year (Note 9)	**183 379**	153 731
Balance at the end of the year	**161 183**	144 930
Analysis of outstanding risk claims provision		
Estimated gross claims	**186 440**	167 885
Less: Estimated recoveries from PMSA	**(25 257)**	(22 955)
Balance at the end of the year	**161 183**	144 930

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 25 March 2019 in respect of the 2018 financial year, and extrapolating these paid claims to 30 April 2019 (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 2018 financial year paid by 26 March 2019 was 79.75% (2017: 29 March 2018 90.52%).

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 in the future may be required.

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 2018 R'000	Change in liability 2017 R'000
Risk claims processing patterns	**10**	**16 118**	14 493

Effect on accumulated funds ratio and accumulated funds:

Accumulated funds ratio	%	%
Accumulated funds ratio as at 31 December	**31.42**	32.09
Movement due to 10% increase in claims processing pattern	**0.45**	0.43

Accumulated funds and profit or loss	R'000	R'000
Accumulated funds as at 31 December	**1 116 763**	1 085 384
Movement due to 10% increase in claims processing pattern	**16 118**	14 493

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.

6 Personal medical savings accounts (PMSA)

PMSA liability	2018 R'000	2017 R'000
Balance of PMSA liability at the beginning of the year	**217 311**	186 532
Advances on PMSA	**(782)**	(574)
Net balance on PMSA liability at the beginning of the year	**216 529**	185 958
PMSA contributions received (Note 8)	**444 835**	418 330
Interest on PMSA monies (Note 17)	**6 525**	14 678
Net transfer from other schemes in terms of Regulation 10(4)	**1 344**	6 808
Claims paid on behalf of members (Note 9)	**(423 927)**	(396 914)
Refunds on death or resignation in term of Regulation 10(4)	**(4 103)**	(12 539)
Prescribed credit write back of unclaimed savings (Note 14)	**(27 331)**	-
Prior year advances recovered during the year	**(782)**	(574)
Advances on PMSA (Note 3)	**1 065**	782
Balance on PMSA liability at the end of the year	**214 155**	216 529
Balance of PMSA liability:		
- for active members	**203 130**	179 652
- due to ex-members	**11 025**	36 877
At the end of the year	**214 155**	216 529

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 Constitutional Court rendered judgement in favour of Genesis Medical Scheme against the Registrar of Medical Schemes and the Council, in that the funds in PMSA can be treated as assets of a medical scheme, therefore members of a medical scheme are not entitled to earn interest on the portion of the money in the PMSA. Based on this outcome the Scheme agreed to pay 4% interest on active members' accounts with accumulated funds (2017: 7.61%) for all positive savings based on the effective interest rate earned on money market instruments). No interest is charged on advances for PMSA.

PMSA investments will no longer be treated separately from the Scheme's assets from 1 January 2018 as the 2018 rules no longer specify that PMSA funds remain the property of the members.

Prescribed unclaimed credit balances of terminated members were written back to the Scheme income in 2018 to the value of R27.3m.

It is estimated that the claims to be paid out of the members' PMSA monies in respect of claims incurred in 2018 but not refunded by 31 December 2018 amounted to R25.3m (2017: R23.1m). Advance PMSA liability claims are funded by the Scheme and are included in trade and other receivables.

6 Personal medical savings accounts (PMSA) *(continued)*

Cash and cash equivalents - PMSA trust monies invested	2018 R'000	2017 R'000
The funds relating to the PMSA liability, were invested by Old Mutual Wealth		
PMSA bank accounts	-	17
Call deposits	-	36 720
Fixed deposits	-	165 000
Total PMSA trust monies invested	-	201 737

PMSA funds previously kept seperately as members' funds were disinvested after the Constitutional Court judgement on maturity date and have been reinvested in the Scheme's Taquanta Asset Manager portfolio.

7 Trade and other payables

	2018 R'000	2017 R'000
Insurance liabilities		
Reported risk claims not yet paid	**26 201**	29 465
Risk contributions received in advance	**2 738**	1 564
Total arising from insurance liabilities	**28 939**	31 029
Financial liabilities		
Amounts owing to administrator	**560**	1 383
Other payables and accrued expenses	**3 228**	1 693
Accrual for investment management fee	**46**	71
Unknown deposits	**10**	18
Total arising from financial liabilities	**3 844**	3 165
Balance of trade and other payables at the end of the year	**32 783**	34 194

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	**29 465**	19 348
Movement during the year	**(3 264)**	10 117
Balance at the end of the year	**26 201**	29 465

Reported risk claims not 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 22.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

8 Risk contribution income	2018 R'000	2017 R'000
Gross contributions	**3 554 438**	3 382 167
Less: PMSA contributions received (Note 6)	**(444 835)**	(418 330)
Risk contribution income	**3 109 603**	2 963 837

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	2018 R'000	2017 R'000
Current year claims	**2 968 159**	2 757 968
Claims not covered by risk transfer arrangement	**2 966 821**	2 756 767
Claims covered by risk transfer arrangement	**1 338**	1 201
Outstanding risk claims provision	**161 183**	144 930
Under provision in the previous year (Note 5)	**(22 196)**	(8 801)
Adjustment for the current year (Note 5)	**183 379**	153 731
Managed care: accredited management services	**82 112**	75 124
Claims paid from PMSA on behalf of members (Note 6)	**(423 927)**	(396 914)
Risk claims incurred	**2 787 527**	2 581 108
Managed care: accredited management services		
Hospital benefit management	**34 437**	32 093
Pharmaceutical benefit management	**13 764**	12 643
Healthcare professional risk management (networks)	**9 347**	8 289
Disease management	**15 276**	13 383
Managed care programme	**72 824**	66 408
Managed care programme: Aid for Aids Management (Pty) Ltd	**9 288**	8 716
	82 112	75 124

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.

10 Net income on risk transfer arrangement	2018 R'000	2017 R'000
Iso Leso Optics Ltd (Iso Leso)		
Risk transfer arrangement premiums paid	**(885)**	(875)
Recovery from risk transfer arrangement	**1 338**	1 201
	453	326

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 Blue Door Plus beneficiaries.

These costs are estimates only and are calculated as follows:

- Iso Leso provided the Scheme with a report reflecting underlying claims information relating to optometry services covered by the risk transfer arrangement.
- Iso Leso provided 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 Blue Door Plus option.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11 Administration expenditure

	2018 R'000	2017 R'000
Administration fees	**242 825**	225 451
Advertising	**67 921**	48 725
Audit Committee costs (Note 11.1)	**147**	154
Audit fees	**1 027**	934
– in respect of the current year	**210**	201
– in respect of the previous year	**817**	733
Bank charges	**1 501**	1 487
Board of Healthcare Funders: Practice Code Numbering System (PCNS)	**149**	143
Conference fees	**97**	156
Consulting fees	**2 165**	1 553
Debt collection fee	**50**	283
Fidelity guarantee premium	**300**	300
Insurance Fraud Management	**2 712**	2 609
Health Funders Association	**240**	231
Independent Counselling and Advisory Service (ICAS)	**25**	298
Legal fees	**120**	-
Maternity Programme	**1 891**	1 339
Meeting expenses	**65**	55
Office rental	**34**	156
Principal Officer's fees	**2 841**	2 513
Principal Officer's remuneration	**2 729**	2 402
Principal Officer's expenses	**112**	111
Printing and photocopying	**1 920**	746
RAF recovery fees	**4 578**	3 978
Registrar's levies	**2 627**	2 545
Salaries and reimbursements	**1 732**	1 510
Total Board Members' remuneration	**3 958**	3 637
– fees for holding of office (Note 11.1)	**3 727**	3 469
– travel and accommodation (Note 11.1)	**231**	168
	338 925	298 803

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
	2018				2017			
J Cloete	373	-	-	373	355	-	-	355
M Duly	373	7	-	380	182	8	-	190
K Elliott (Resigned)	-	-	-	-	87	9	-	96
G Eloff	373	25	-	398	355	7	-	362
M Govender	373	-	-	373	355	-	-	355
P Hemus	373	56	-	429	355	42	-	397
T Jackson	532	50	-	582	355	27	-	382
Dr M Mojapelo-Mokotedi	373	13	-	386	355	17	-	372
C Norton	373	40	-	413	355	31	-	386
N Parker	584	40	-	624	715	27	-	742
Board Member Costs	**3 727**	**231**	**-**	**3 958**	**3 469**	**168**	**-**	**3 637**
Independent: P Brink	-	-	62	62	-	-	60	60
Independent: H Kajie	-	11	32	43	-	14	40	54
Independent: B Phillips	-	-	42	42	-	-	40	40
Audit Committee Costs	**-**	**11**	**136**	**147**	**-**	**14**	**140**	**154**
Total	**3 727**	**242**	**136**	**4 105**	**3 469**	**182**	**140**	**3 791**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

12 Net impairment loss on healthcare receivables

	2018 R'000	2017 R'000
Trade and other receivables		
Contributions not recoverable	**(2 765)**	(775)
- Increase in impairment	**(2 104)**	(32)
- Impairment recognised directly in profit or loss	**(661)**	(743)
Members' and service providers' portions not recoverable	**(10 826)**	(8 375)
- Increase in impairment	**(4 338)**	(5 824)
- Impairment recognised directly in profit or loss	**(6 488)**	(2 551)
PMSA advances not recoverable	**198**	148
- Decrease in impairment	**198**	148
Net movement in impairment (Note 3)	**(13 393)**	(9 002)
Previous impairment losses recovered	**1 064**	3 319
	(12 329)	(5 683)

13 Investment income

	2018 R'000	2017 R'000
Net fair value realised on disposal	**(422)**	2 776
Realised gains from available-for-sale investments	**79 937**	88 143
Realised losses from available-for-sale investments	**(80 359)**	(85 367)
Dividends received	**12 313**	13 155
Interest received	**84 160**	63 352
Interest received: Medical Scheme	**58 182**	52 106
Interest income from cash and cash equivalents: Medical Scheme	**25 978**	11 246
Interest on PMSA trust monies (Note 6)	**-**	14 678
	96 051	93 961
Medical Scheme	**96 051**	79 283
PMSA trust monies	**-**	14 678
	96 051	93 961

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

14 Sundry income	2018 R'000	2017 R'000
Fraud recoveries	**3 883**	1 754
Prescribed credit write back of unclaimed savings (Note 6)	**27 331**	-
Sundry income	**18**	-
	31 232	1 754

15 Asset management fees	2018 R'000	2017 R'000
Investment management fees	**5 037**	4 433
Investment expenses	**198**	256
Cash management fees	**668**	522
	5 903	5 211

16 Operations per benefit option

Benefit design of the Scheme

The Scheme is branded as three product ranges: Comprehensive options (4 options and 1 efficiency discounted sub-option (EDO)), Maxima Saver options (5 options and 2 EDOs), Hospital options (3 options and 1 EDO) and Blue Door Plus (1 option). The Comprehensive options includes day-to-day benefits paid from risk (out-of-hospital expense benefit (OHEB) and threshold), the Maxima Saver options includes day-to-day benefits paid from savings only and the Hospital options excludes day-to-day benefits.

Comprehensive Options

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

Ultimax 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 risk pool after member used up their savings.

Saver Options

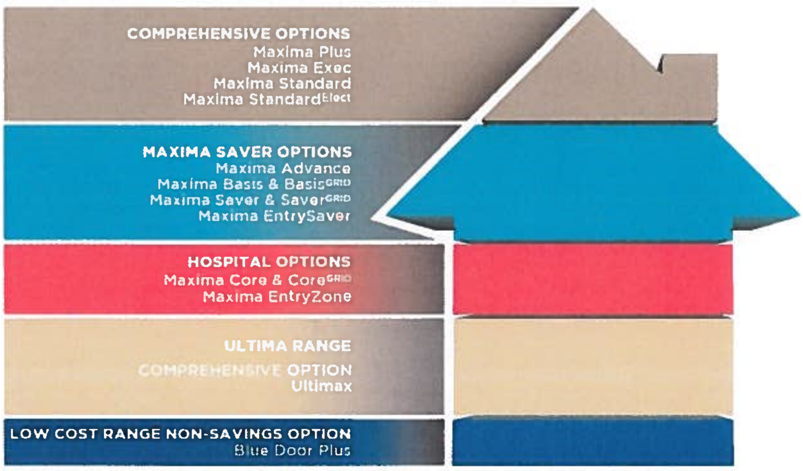
All the options in the Saver options have deductibles on a number of in-hospital procedures. In-hospital limits differ by option, with the limits reducing across the options. The same also applies to the savings benefits. Chronic medicine is limited to Chronic Disease list (CDL) only. These options provide for a medical savings account. EntrySaver and Dynamic Saver have hospital networks.

Hospital Options

These options provide no day-to-day benefits. In-hospital limits differ by option, with the limits reducing across the options. EntryZone and Dynamic Hospital Plan have hospital networks.

Blue Door Plus

The Blue Door Plus option is structured differently from the options in the Comprehensive and Saver 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 Comprehensive or Saver options and the option has a hospital network.



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 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 carried 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)*

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
2017						
Net risk contribution income	**30 203**	**152 675**	**353 167**	**1 091 977**	**23 625**	**1 651 647**
Relevant healthcare expenditure	**(25 491)**	**(150 560)**	**(384 422)**	**(933 336)**	**(18 995)**	**(1 512 804)**
Net claims incurred	**(25 491)**	**(150 560)**	**(384 422)**	**(933 336)**	**(18 995)**	**(1 512 804)**
Risk claims incurred	(23 762)	(141 157)	(354 417)	(711 747)	(14 137)	(1 245 220)
Claims paid from PMSA on behalf of the member	(1 747)	(9 522)	(30 411)	(223 326)	(4 913)	(269 919)
Third party claims recoveries	18	119	406	1 737	55	2 335
Net income on risk transfer arrangements	-	-	-	-	-	-
Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-
Recoveries from risk transfer arrangements	-	-	-	-	-	-
Gross healthcare result	**4 712**	**2 115**	**(31 255)**	**158 641**	**4 630**	**138 843**
Broker service fees	(151)	(1 095)	(3 626)	(20 561)	(518)	(25 951)
Administration expenses	(945)	(6 210)	(21 125)	(102 357)	(2 852)	(133 489)
Net impairment losses on healthcare receivables	15	(38)	(406)	(2 109)	(29)	(2 567)
Net healthcare result	**3 631**	**(5 228)**	**(56 412)**	**33 614**	**1 231**	**(23 164)**
Other income	**241**	**1 587**	**5 390**	**26 119**	**725**	**34 062**
Investment income: Medical Scheme	236	1 552	5 272	25 548	709	33 317
Sundry income	5	35	118	571	16	745
Other expenditure	**(16)**	**(102)**	**(347)**	**(1 680)**	**(47)**	**(2 192)**
Asset management fees	(16)	(102)	(347)	(1 680)	(47)	(2 192)
Net surplus/(deficit) for the year	**3 856**	**(3 743)**	**(51 369)**	**58 053**	**1 909**	**8 706**
Number of members per option	**209**	**1 382**	**4 666**	**22 657**	**615**	**29 529**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16 Operations per benefit option *(continued)*	Subtotal 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
2017										
Net risk contribution income	1 651 647	141 612	262 045	11 808	299 361	9 979	154 563	15 221	245 237	2 791 473
Relevant healthcare expenditure	(1 512 804)	(146 042)	(213 520)	(8 579)	(255 574)	(8 243)	(124 088)	(11 086)	(173 506)	(2 453 442)
Net claims incurred	(1 512 804)	(146 042)	(213 520)	(8 579)	(255 574)	(8 243)	(124 088)	(11 086)	(173 506)	(2 453 442)
Risk claims incurred	(1 245 220)	(135 325)	(172 176)	(6 625)	(256 246)	(8 268)	(98 622)	(8 630)	(130 559)	(2 061 671)
Claims paid from PMSA on behalf of the member	(269 919)	(10 939)	(41 911)	(1 980)	-	-	(25 864)	(2 499)	(43 788)	(396 900)
Third party claims recoveries	2 335	222	567	26	672	25	398	43	841	5 129
Net income on risk transfer arrangements	-	-	-	-	-	-	-	-	-	-
Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-	-	-	-	-
Recoveries from risk transfer arrangements	-	-	-	-	-	-	-	-	-	-
Gross healthcare result	138 843	(4 430)	48 525	3 229	43 787	1 736	30 475	4 135	71 731	338 031
Broker service fees	(25 951)	(1 898)	(5 347)	(220)	(6 143)	(207)	(3 644)	(375)	(7 234)	(51 019)
Administration expenses	(133 489)	(11 552)	(29 541)	(1 372)	(34 993)	(1 319)	(20 670)	(2 220)	(43 683)	(278 839)
Net impairment losses on healthcare receivables	(2 567)	(258)	(475)	(19)	(580)	(26)	(397)	(40)	(670)	(5 032)
Net healthcare result	(23 164)	(18 138)	13 162	1 618	2 071	184	5 764	1 500	20 144	3 141
Other income	34 062	2 946	7 537	352	8 922	338	5 299	581	11 270	71 307
Investment income: Medical Scheme	33 317	2 882	7 373	345	8 727	331	5 185	569	11 034	69 763
Sundry income	745	64	164	7	195	7	114	12	236	1 544
Other expenditure	(2 192)	(190)	(485)	(23)	(575)	(22)	(340)	(37)	(721)	(4 585)
Asset management fees	(2 192)	(190)	(485)	(23)	(575)	(22)	(340)	(37)	(721)	(4 585)
Net surplus/(deficit) for the year	8 706	(15 382)	20 214	1 947	10 418	500	10 723	2 044	30 693	69 863
Number of members per option	29 529	2 544	6 522	337	7 646	303	4 806	634	10 950	63 271

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16 Operations per benefit option *(continued)*	Subtotal carried forward R'000	Maxima Entry Zone R'000	Dynamic Saver R'000	Dynamic Hospital R'000	Blue Door Plus R'000	Grand Total R'000
2017						
Net risk contribution income	2 791 473	98 668	144	83	73 469	2 963 837
Relevant healthcare expenditure	(2 453 442)	(61 966)	(100)	(46)	(59 368)	(2 574 922)
Net claims incurred	(2 453 442)	(61 966)	(100)	(46)	(59 694)	(2 575 248)
Risk claims incurred	(2 061 671)	(62 321)	(87)	(47)	(60 068)	(2 184 194)
Claims paid from PMSA on behalf of the member	(396 900)	-	(14)	-	-	(396 914)
Third party claims recoveries	5 129	355	1	1	374	5 860
Net income on risk transfer arrangements	-	-	-	-	326	326
Risk transfer arrangement fees/premiums paid	-	-	-	-	(875)	(875)
Recoveries from risk transfer arrangements	-	-	-	-	1 201	1 201
Gross healthcare result	338 031	36 702	44	37	14 101	388 915
Broker service fees	(51 019)	(2 627)	(6)	(4)	(2 787)	(56 443)
Administration expenses	(278 839)	(11 097)	(25)	(17)	(8 825)	(298 803)
Net impairment losses on healthcare receivables	(5 032)	(312)	-	-	(339)	(5 683)
Net healthcare result	3 141	22 666	13	16	2 150	27 986
Other income	71 307	4 721	12	8	4 989	81 037
Investment income: Medical Scheme	69 763	4 619	12	8	4 881	79 283
Sundry income	1 544	102	-	-	108	1 754
Other expenditure	(4 585)	(304)	(1)	-	(321)	(5 211)
Asset management fees	(4 585)	(304)	(1)	-	(321)	(5 211)
Net surplus/(deficit) for the year	69 863	27 083	24	24	6 818	103 812
Number of members per option	63 271	4 190	16	27	4 476	71 980

17 Cash flows (utilised in)/generated from operations before working capital changes

	2018 R'000	2017 R'000
Net surplus for the year	**31 379**	103 812
Adjustments for:		
– net movement in allowance for impaired receivables	**6 244**	5 707
– investment income: Medical Scheme	**(96 473)**	(76 507)
– interest paid on PMSA liability (Note 6)	**6 525**	14 678
– net fair value realised on disposal (Note 13)	**422**	(2 776)
	(51 903)	44 914

18 Related party transactions

The administrator and its associates

Medscheme Holdings (Pty) Ltd, the administrator, Aid for Aids Management (Pty) Ltd, Helios IT Solutions (Pty) Ltd, Klinikka (Pty) Ltd, Pharmacy Direct (Pty) Ltd, The Cheese Has Moved (Pty) Ltd and Wellworx (Pty) Ltd are subsidiaries of AfroCentric Health Ltd and provide key management services to the Scheme. Wellworx is an authorised Financial Services Provider (FSP Licence No 46017), mandated by the Scheme to sell Fedhealth and other complimentary financial service products. 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.

	2018 R'000	2017 R'000
Statement of comprehensive income		
Medscheme Holdings (Pty) Ltd	**322 093**	297 072
– Actuarial fees	**1 867**	1 288
– Administration fees	**242 825**	225 451
– Insurance Fraud Management (IFM)	**2 712**	2 609
– Managed care: management services	**72 824**	66 408
– Third party collection administration services	**1 865**	1 316
AfroCentric Health Ltd	**83 365**	55 522
– Aid for Aids Management	**9 288**	8 716
– Helios IT Solutions	**1 076**	527
– Klinikka	**1 205**	1 204
– Pharmacy Direct	**20 802**	19 753
– The Cheese Has Moved	**43 079**	19 907
– Wellworx	**7 915**	5 415
Statement of financial position		
Medscheme Holdings (Pty) Ltd	**(1 582)**	1 877
– Administration fees	**(2 265)**	849
– Aid for Aids Management	**(3)**	1
– Managed care: management services	**560**	534
– Third party collection administration services	**126**	493

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

18 Related party transactions *(continued)*	2018 R'000	2017 R'000
Statement of financial position *(continued)*		
AfroCentric Health Ltd	-	351
– Pharmacy Direct	-	351

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 and Principal Officer, 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 also related parties.

	2018	2017
Statement of comprehensive income		
Board Members' fees for holding of office and related expenses and Principal Officer's remuneration and expenses	**6 820**	6 150
– Risk contributions received in terms of the Scheme's rules	**584**	570
– Risk claims incurred in terms of the Scheme's rules	**(310)**	(431)
Statement of financial position		
– PMSA liability	**(1)**	(13)

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.

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 administrator implemented FICO Blaze Advisor™ (Blaze) decision management system on 16 November 2017 under their claims assessing project to manage fraud, waste and abuse effectively as well as enhancing the existing claims and reimbursement management capabilities. The decision engine has the ability to evaluate the validity and eligibility of a claim, whilst the existing administration system, Nexus, continues to apply the benefit and limit checks as well as the pricing and payment of the claim. Despite the testing performed on the Blaze system and a "parallel run" of the old and new rules engines, various issues were experienced since the implementation which resulted in certain claims being incorrectly rejected or short paid.	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. System faults have been corrected and all claims identified as incorrectly rejected or short paid since the implementation of the Blaze decision management system were reassessed and paid by the end of February 2018.

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 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 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.
19.5 Prescribed Minimum benefit (PMB) claims paid from savings		
Regulation 8 of the Act, stipulates that schemes are required to fund PMB conditions at full invoice price. Therefore PMB claims cannot be funded by the member's personal medical savings account. Certain claim exceptions were found at the beginning of the financial year on the Maxima Entry Saver, Maxima Basis Grid and Maxima Saver Grid options where PMB claims were paid out of savings. The linking had been changed for the different benefit plans where "PMB not applicable" was ticked during the setup of None and Out of area consults for the Network Plan Groups.	The scheme is non-compliant with Regulation 8 of the Act and will be liable for the PMB claims relating to Network consultations paid from the members medical savings account for these three options.	The administrator corrected the system link to PMB payment for these three options for Non and Out of area Network consults. The impacted claims were corrected and paid accordingly.

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 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.

Impairment of available-for-sale investments
The Scheme determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value of the asset below its cost. This determination of what is significant or prolonged requires judgment. In applying this judgment, the Scheme evaluates, among other factors, the normal volatility in share price, the financial health of the investor, industry and sector performance, changes in technology and operational and financing cash flow. Impairment may be appropriate if there is a decline in any of these factors.

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.

21 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.

21 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.

21 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:

Provider categories	2018 %	2018 R'000	2017 %	2017 R'000
Medical practitioners	**3.77%**	**101 132**	3.51%	86 805
Medical specialists	**32.02%**	**859 527**	31.66%	782 382
Hospitals	**48.01%**	**1 288 988**	48.59%	1 200 483
Medicines	**10.53%**	**282 743**	10.65%	263 155
Optical	**0.21%**	**5 647**	0.27%	6 763
Dentistry	**0.47%**	**12 584**	0.53%	13 093
Paramedical services	**3.88%**	**104 078**	3.60%	88 854
Physiotherapy	**1.09%**	**29 345**	1.16%	28 541
Associated health services	**0.02%**	**632**	0.03%	799
Total	**100.00%**	**2 684 676**	100.00%	2 470 875

Distribution of principal members across options at year-end

Option name	2018 %	2018 Membership	2017 %	2017 Membership
Ultimax	**0.23%**	**168**	0.29%	209
Maxima Exec	**5.48%**	**3 992**	6.48%	4 666
Maxima Plus	**1.62%**	**1 180**	1.92%	1 382
Maxima Standard	**28.38%**	**20 661**	31.49%	22 657
Maxima Standard Elect	**0.80%**	**583**	0.85%	615
Maxima Advance	**3.11%**	**2 265**	3.53%	2 544
Maxima Basis	**8.19%**	**5 963**	9.06%	6 522
Maxima Basis Grid	**0.71%**	**517**	0.47%	337
Maxima Core	**9.59%**	**6 984**	10.62%	7 646
Maxima Core Grid	**0.53%**	**386**	0.42%	303
Maxima EntryZone	**5.91%**	**4 300**	5.82%	4 190
Maxima Saver	**7.17%**	**5 219**	6.68%	4 806
Maxima Saver Grid	**2.94%**	**2 138**	0.88%	634
Maxima Dynamic Saver	**0.00%**	**-**	0.04%	27
Maxima EntrySaver	**19.18%**	**13 965**	15.21%	10 950
Maxima Dynamic Hospital	**0.00%**	**-**	0.02%	16
Blue Door Plus	**6.16%**	**4 487**	6.22%	4 476
Total	**100.00%**	**72 808**	100.00%	71 980

21 Insurance risk management *(continued)*

Qualitative risk factors

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

- The absence of the Reference Price List (RPL) will result in the reimbursement for 2019 services using the 2018 Scheme rate including an additional 5.1 % increment. In the event that should a 2019 RPL be published or intervention from a statutory pricing body be actioned, the 2019 rate may be too low and this could pose a significant financial risk to the Scheme.

- 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.

- The publication of the National Health Insurance (NHI) and the Medical Schemes Amendment Bills was officially announced on 21 June 2018. The Bill provides details on key aspects of the functioning, objectives and operational units and committees instrumental to the implementation of this fund.

- 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.

- The NHI Bill was published in tandem with the Medical Schemes Amendment Bill which contains some fundamental changes for Schemes which may have implications on benefit option structures, membership coverage and funding obligations.

- Competition Commission Healthcare Market Inquiry – the provisional findings and the preliminary recommendations of the Health Market Inquiry was published on 5 July 2018. It is anticipated that an extensive time consuming consultative process will be initiated relating to the implementation of the recommendations defined. No allowance has been made for the impact of the preliminary recommendations for 2019.

- In Circular 38 of 2015, the Council for Medical Schemes proposed a framework that could be used for developing a more robust solvency measurement instead of using the 25% solvency ratio as a basis. This framework applies a risk based approach which measures specific risks such as business, asset and operational risks. The risk based framework is expected to effectively result in less than 25% requirement for larger schemes and a higher requirement for smaller schemes.

- Government Employees Medical Scheme (GEMS), the continued loss of members to GEMS poses a risk to the scheme. It is expected that the scheme will lose more members to GEMS and hence the pricing structure has been adjusted accordingly to improve the claims experience.

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.

21 Insurance risk management *(continued)*

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.

22 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)*

22 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: Medical Scheme assets	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)*

22 Financial risk management *(continued)*

2017	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		**-**	**591 322**	**-**	**591 322**
Available-for-sale investments	2	-	591 322	-	591 322
Current assets		**919 353**	**-**	**-**	**919 353**
Trade and other receivables	3	56 213	-	-	56 213
Cash and cash equivalents: Medical Scheme assets	4	661 403	-	-	661 403
Cash and cash equivalents: PMSA trust monies	6	201 737	-	-	201 737
Total assets		**919 353**	**591 322**	**-**	**1 510 675**
Liabilities					
Current liabilities		**342 119**	**30 931**	**22 602**	**395 653**
Outstanding risk claims provision	5	91 396	30 931	22 602	144 930
PMSA trust liability	6	216 529	-	-	216 529
Trade and other payables	7	34 194	-	-	34 194
Total liabilities		**342 119**	**30 931**	**22 602**	**395 653**

22 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:

	2018 R'000	2017 R'000
Available-for-sale investments	**725 866**	591 322
Cash and cash equivalents	**579 636**	661 403
Trade and other receivables	**228 574**	56 213
Total	**1 534 076**	1 308 938

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.

22 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 6.64% (2017: 7.50%) 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.

	2018 R'000	2018 R'000	2017 R'000	2017 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	**216 625**	**-**	46 148	-
Past due 0-30 days	**13 004**	**(3 639)**	10 857	(955)
Past due 31-60 days	**1 474**	**(1 013)**	892	(698)
Past due 61-90 days	**5 656**	**(3 533)**	835	(866)
More than 90 days	**5 690**	**(5 690)**	5 134	(5 134)
Note 3	**242 449**	**(13 875)**	63 866	(7 653)

22 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

Asset class	2018 R'000	2018 %	2017 R'000	2017 %
Cash: Medical Scheme assets	**579 636**	**44.40%**	661 403	45.48%
Cash: PMSA trust monies	**-**	**0.00%**	201 737	13.87%
Unlisted debentures	**16 488**	**1.26%**	11 337	0.78%
Listed equities	**258 136**	**19.77%**	265 293	18.24%
Listed fixed interest bonds	**396 552**	**30.38%**	253 999	17.46%
Listed investment property funds	**54 690**	**4.19%**	60 693	4.17%
Total	**1 305 502**	**100.00%**	1 454 462	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.

22 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)*

22 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.

2018	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	-	-	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: Medical Scheme assets	4	499 591	80 045	-	-	**579 636**
Total		**499 591**	**80 045**	**396 552**	**334 356**	**1 310 544**
2017						
Available-for-sale investments	2	-	-	253 999	337 323	591 322
Trade and other receivables	3	-	-	-	8 898	8 898
Trade and other payables	7	-	-	-	(3 165)	(3 165)
Cash and cash equivalents: Medical Scheme assets	4	661 403	-	-	-	661 403
Cash and cash equivalents: PMSA trust monies	6	-	201 737	-	-	201 737
Total		661 403	201 737	253 999	343 056	1 460 195

22 Financial risk management *(continued)*

Asset managers and mandates

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%**
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%**

Allocation as at 31 December 2017

Asset Manager	Segregated Mandate	Benchmark	R'000	%
Old Mutual Wealth Trust Co (Pty) Ltd	*Cash		318 527	21.90%
Old Mutual Wealth (PMSA trust monies)	*Liquidity/Cash		201 737	13.87%
Sanlam Investment Management (Pty) Ltd	Absolute return	CPI+3.5%	314 111	21.60%
Taquanta Asset Management (Pty) Ltd	Enhanced cash	SteFi+1%	313 475	21.55%
Truffle Asset Managers (Pty) Ltd	Absolute return	CPI+5%	306 612	21.08%
Total			1 454 462	100.00%

** Includes the Scheme's current accounts*

Market performance to 31 December 2018

Performance to	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)
	%	%	%	%
All Share Index	-4.88%	-8.53%	4.33%	5.77%
All Bond Index	2.74%	7.69%	11.07%	7.71%
STeFi	1.78%	7.25%	7.39%	6.91%
CPI	1.11%	5.18%	5.48%	5.39%
Resource 20	-5.00%	17.77%	21.03%	-0.83%
Industrial 25	-6.84%	-17.87%	-1.94%	5.43%
Financial 15	-0.35%	-4.09%	7.30%	9.80%
Financial Industrial 30	-4.92%	-14.51%	0.42%	6.82%
Top 40	-5.25%	-8.31%	3.55%	5.44%

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

22 Financial risk management *(continued)*

The Scheme's performance to 31 December 2018

Performance to	Market value R'000	% Portfolio	3 Months %	1 Year %	3 Years %	5 Years %
Nedbank Ltd current account	**37 637**	2.88%	1.18%	4.83%	5.05%	4.54%
Old Mutual Wealth Trust (Pty) Ltd	**172 790**	13.24%	1.68%	6.85%	6.98%	6.43%
Sanlam Investment Management (Pty) Ltd	**318 674**	24.41%	-0.14%	2.11%	8.04%	8.49%
Taquanta Asset Management (Pty) Ltd	**464 123**	35.55%	2.11%	10.71%	10.92%	7.88%
Truffle Asset Managers (Pty) Ltd	**312 278**	23.92%	-0.63%	2.38%	2.48%	0.00%
Total	**1 305 502**	**100.00%**				
Consolidated benchmark CPI +3.5%						

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

22 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 R585m (2017: R668m) if the investment performance had been higher by 1% during 2018 as compared to the market investment performance. A 1% increase in the investment return at the reporting date would have increased cash by R5.40m (2017: R6.15m); an equal change in the opposite direction would have decreased cash by the same amount.

	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2018	2%	9.25%	590 446	10 810
	1%	8.25%	585 040	5 404
	0%	7.25%	579 636	-
2017	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
	2%	9.54%	673 705	12 302
	1%	8.54%	667 554	6 150
	0%	7.54%	661 403	-

22 Financial risk management *(continued)*

Sensitivity analysis: Cash and cash equivalents - PMSA trust monies invested

Basis

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of interest i.e. 1% suggests the closing market value could have been approximately R204m for 2017 if the interest had been higher by 1% during as compared to the actual interest rate. A 1% increase in the interest at the reporting date would have increased PMSA trust monies by R1.88m. An equal change in the opposite direction would have decreased PMSA trust monies by the same amount.

The PMSA trust monies were disinvested during 2018 and reinvested in the Scheme investment portfolios and form part of the Schemes asset's as cash and cash equivalents.

2018	**% Change**	**Gross index return %**	**Adjusted closing value R'000**	**Impact on accumulated funds R'000**
	2%	9.25%	-	-
	1%	8.25%	-	-
	0%	7.25%	-	-

2017	% Change	Gross index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
	2%	9.54%	205 489	3 752
	1%	8.54%	203 613	1 876
	0%	7.54%	201 737	-

22 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 R347m (2017: R353m) if the investment performance had been higher by 10% during 2018 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 R34.20m (2017: R26.95m); 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
2018				
	20%	11.47%	381 226	68 400
	10%	1.47%	347 026	34 200
	0%	-8.53%	312 826	-
2017	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
	20%	40.95%	379 890	53 904
	10%	30.95%	352 938	26 952
	0%	20.95%	325 986	-

22 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 R417m (2017: R268m) if the investment performance had been higher by 1% during 2018 as compared to the market investment performance. A 1% increase in the investment return at the reporting date would have increased bond investments by R3.84m (2017: R2.41m); 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
2018	5%	12.69%	432 218	19 178
	1%	8.69%	416 876	3 836
	0%	7.69%	413 040	-
2017	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
	5%	15.22%	277 373	12 037
	1%	11.22%	267 744	2 408
	0%	10.22%	265 336	-

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)*

22 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
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 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**	**709 378**	**16 488**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

22 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
2017								
Assets measured at fair value								
Investments	**591 322**	-	-	-	-	**591 322**	**579 985**	**11 337**
- Unlisted debentures	11 337	-	-	-	-	11 337	-	11 337
- Listed equities	265 293	-	-	-	-	265 293	265 293	-
- Listed fixed interest bonds	253 999	-	-	-	-	253 999	253 999	-
- Listed investment property funds	60 693	-	-	-	-	60 693	60 693	-
Assets not measured at fair value	-	**872 038**	-	-	**47 315**	**919 353**		
Cash and cash equivalents: Medical Scheme assets	-	661 403	-	-	-	661 403		
Cash and cash equivalents: PMSA trust monies	-	201 737	-	-	-	201 737		
Trade and other receivables *	-	8 898	-	-	47 315	56 213		
Liabilities not measured at fair value	-	-	**(3 165)**	**(216 529)**	**(175 959)**	**(395 653)**		
PMSA trust liability	-	-	-	(216 529)	-	(216 529)		
Outstanding risk claims provision	-	-	-	-	(144 930)	(144 930)		
Trade and other payables *	-	-	(3 165)	-	(31 029)	(34 194)		
	591 322	**872 038**	**(3 165)**	**(216 529)**	**(128 644)**	**1 115 022**	**579 985**	**11 337**

22 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 91.

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 31.42% (2017: 32.09%). The Board believes that this cover is appropriate for the Scheme's needs.

23 Events after the reporting date

The proposed amalgamation of Fedhealth and Topmed Medical Scheme (Topmed) in accordance with Section 63 the Act, is currently under review by the Council and the Competition Commission.

The Boards of both schemes approved the amalgamation based on an independent actuarial review undertaken by Cadiant Partners Actuarial and Consulting Solutions (Pty) Ltd (Cadiant Partners). The review confirms that the amalgamation will be in the best interest of the members of both schemes. Cadiant Partners are the current actuaries to Topmed and have therefore recommended to the Board of Topmed to proceed with the amalgamation with Fedhealth. The proposed effective date of the amalgamation is 1 June 2019.

24 Contingent assets and liabilities

Contingent assets

The Scheme contracted with Medscheme in 2017 to manage new road accident claims. There are currently 117 cases open (2017: 83) cases totalling R22.0m (2017: R14.8m). Batsumi Claims Management Solutions (Pty) Ltd will continue to wind down the 492 (2017: 621) outstanding road accident claims totalling R87.8m (2017: R78.3m) relating to the period before Medscheme took over from Batsumi. 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.