LA HEALTH MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2018

LA HEALTH MEDICAL SCHEME
(Registration no. 1145)

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2018

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SCHEME DETAILS

BOARD OF TRUSTEES	Mr GJ Beukman	Elected (Chairperson)
	Mr HA Deysel	Elected (Deputy Chairperson)
	Mr J Allan	Elected
	Mr RC Barnard	Elected
	Mr A Bennett	Elected
	Mr R Bosman	Elected
	Ms C Botes	Elected
	Mr H Botha	Elected
	Mr R de Bruyn	Elected
	Mr R Denge	Elected (1 July 2018)
	Mr M Dlamini	Elected (1 July 2018)
	Mr R Field	Elected
	Mr F Hoffman	Elected
	Mr A Lemmer	Elected
	Mr P Louwrens	Elected
	Mr ME Mattheus	Elected (end of term 30 June 2018)
	Mr MCT Schultz	Elected (end of term 30 June 2018)
	Mr A Vorster	Elected
PRINCIPAL OFFICER	Mr AM de Koker	
REGISTERED OFFICE	Combined HQ, Unit 7, Level 2 4 Bridal Close Tyger Falls 7530	
POSTAL ADDRESS	Postnet Suite 116 Private Bag X19 Milnerton 7435	
ADMINISTRATOR Registered address of administrator	**Discovery Health (Pty) Ltd** 1 Discovery Place Sandton 2146	
AUDITOR Registered address of auditor	**KPMG Inc** 85 Empire Road Parktown Johannesburg 2193	

TRUSTEES' RESPONSIBILITY AND APPROVAL

The Trustees are responsible for the preparation and fair presentation of the annual financial statements of LA Health Medical Scheme, comprising the statement of financial position at 31 December 2018, and the statements of comprehensive income, changes in funds and reserves and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act of South Africa. In addition, the Trustees are responsible for preparing the report of the Board of Trustees.

The Trustees are also responsible for such internal control as the Trustees determine is necessary to enable the preparation of annual 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.

The Trustees have made an assessment of the Scheme's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the annual financial statements

The annual financial statements of LA Health Medical Scheme, as identified in the first paragraph, were approved by the Trustees on 17 April 2019 and are signed on their behalf by:

GJ BEUKMAN	**A VORSTER**	**AM DE KOKER**
CHAIRPERSON	TRUSTEE	PRINCIPAL OFFICER

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

LA Health Medical Scheme (the Scheme) is committed to the principles and practice of responsibility, accountability, fairness and transparency in its dealings with all stakeholders and applies good governance principles.

The Scheme is committed to ensure compliance within recognised frameworks and conducting its affairs based on ethical values, to ensure the adoption of risk assessment, evaluation and management processes, regular monitoring of third party administrators and providers in accordance with contractual service level agreements. This includes evaluating the performance of the Board and the Audit Committee against agreed terms of reference, the establishment and management of internal controls by assessing the adequacy and effectiveness through the reports of the internal auditor and calling on expert and professional advice when required.

BOARD OF TRUSTEES

The Board of Trustees and the Audit Committee meet regularly and monitor the performance of the Administrator and other service providers. They address a range of key issues and ensure discussion of items of policy, strategy and performance are informed and constructive.

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

INTERNAL CONTROL

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 of its assets. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

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

GJ BEUKMAN
CHAIRPERSON

A VORSTER
TRUSTEE

AM DE KOKER
PRINCIPAL OFFICER

17 April 2019

REPORT OF THE AUDIT COMMITTEE

The Audit Committee hereby presents its report for the year ended 31 December 2018.

Audit Committee Members

The Audit Committee consists of the members listed below and meets at least once a quarter as per the approved terms of reference. During the financial year under review four meetings were held.

		Meetings attended
Mr G Buchholtz (Chairman)	Independent	4
Dr J Cornell	Independent	4
Mr R Denge (resigned 30 June 2018)	Independent	1
Ms F Mohamed (appointed 21 September 2018)	Independent	2
Mr A Lemmer	Trustee	4
Mr A Vorster	Trustee	4

Audit Committee costs are depicted in the annual financial statements. Refer to note 14 of the annual financial statements.

Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities as contained in the Medical Schemes Act of South Africa (the Act), and the Corporate Governance Guide to Audit Committees for Medical Schemes as issued by the South African Institute of Chartered Accountants.

The Audit Committee reports that it has complied with the formal terms of reference/audit committee charter, as approved by the Board of Trustees, regulated its affairs in compliance with the charter and discharged its responsibilities as contained therein.

The effectiveness of internal control

The Audit Committee has received reports from various assurance providers on the effectiveness of the internal financial control environment and as such has not found any significant or material non-compliance with prescribed policies and procedures.

Further, the Audit Committee noted that management controls applied during the year of assessment, e.g. the maintaining of an internal audit activity by the Scheme's administrator, has enhanced the overall internal control structure. The Committee noted specifically the high level of assurance awarded to the Scheme's administrator's financial control environment.

Risk management

The Board of Trustees also appointed the Audit Committee as the Risk Committee of the Scheme. A risk register was compiled and is reviewed on a regular basis. These risks are monitored by this Committee.

Evaluation of annual financial statements

The Audit Committee has:

- Noted that the financial statements of the Scheme have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act of South Africa;
- Noted there were no changes in the accounting policies as per note 1.1; and
- Reviewed and discussed with the Principal Officer and external auditor the audited financial statements.

REPORT OF THE AUDIT COMMITTEE (continued)

Governance

The Board of Trustees adopted the governance principles of the King Code and the King III Report. The Board of Trustees are in the process of assessing and implementing the King IV Report. Further initiatives are currently being developed to achieve alignment with the code, e.g. Combined Assurance, Ethics Management & IT Governance.

Non-compliance matters

In terms of Section 26(7) of the Medical Schemes Act of South Africa, all contributions shall be paid directly to a medical Scheme not later than three days after payment thereof becoming due. There are instances where the Scheme received contributions after three days of becoming due.

In terms of Section 33(2) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound. The LA Core and LA Comprehensive benefit options incurred net healthcare deficits for the year.

In terms of Section 59(2) of the Act, a medical scheme shall 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.

The Committee takes note of the Board of Trustees' comments as contained in the Board of Trustees Report in this regard.

Annual financial statements

The Audit Committee concurs and accepts the conclusions of the external auditor on the financial statements and is of the opinion that the audited financial statements be accepted and read together with the report of the external auditor.

G BUCHHOLTZ
CHAIRPERSON - AUDIT COMMITTEE

AM DE KOKER
PRINCIPAL OFFICER

17 April 2019

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Independent auditor's report

To the members of LA Health Medical Scheme

Report on the financial statements

Opinion
We have audited the financial statements of LA Health Medical Scheme (the Scheme), set out on pages 11 to 61, which comprise the statement of financial position at 31 December 2018, and the statement of comprehensive income, the statement of changes in funds and reserves and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of LA Health Medical Scheme 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 1.11 and 11 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.	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.

Due to the significant volume of claims processed by the Scheme, the payment of valid risk claims is dependent on the integrity of the Scheme's administration system, as well as the automated claim assessment controls. Risk claims incurred was considered a key audit matter due to the significant volume of claims processed during the year and the work effort required to be performed by the audit team.	• We tested the IT controls in place to prevent unauthorised access or changes to the administration system. • We tested, through the assistance of our own IT specialists, the automated claim assessment controls of the administration system to ensure that only valid claims were being processed and paid. • We inspected the reconciliation, performed by the Scheme administrator, between the administration system and the general ledger to assess whether the risk claims paid were accurately captured into the Scheme's accounting system.

Outstanding risk claims provision
Refer to Notes 1.8 and 6 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 6 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.
	  • 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 Scheme details, Trustees' responsibility and approval, the Statement of corporate governance by the Board of Trustees, Report of the Audit Committee and the Report of the Board of Trustees. The other information does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of the scheme's trustees for the financial statements
The Scheme's trustees are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa, and for such internal control as the Scheme's trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

From the matters communicated with the Scheme's trustees, we determine those matters that were of

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

Report on other legal and regulatory requirements

Non-compliance with the Medical Schemes Act of South Africa
As required by the Council for Medical Schemes, we report 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 LA Health Medical Scheme for 15 years.

The engagement partner, LW Grobler, has been responsible for LA Health Medical Scheme's audit for four years.

KPMG Inc.

Per LW Grobler
Chartered Accountant (SA)
Registered Auditor
Associate Director
17 April 2019

LA HEALTH MEDICAL SCHEME
(Registration no. 1145)

STATEMENT OF FINANCIAL POSITION
at 31 December 2018

	Notes	2018 R	2017 R
ASSETS			
Non-current assets		5,388,025	5,439,650
Property and equipment	2	5,388,025	5,434,791
Motor vehicle loans	3	-	4,859
Current assets		2,047,154,883	1,708,696,643
Trade and other receivables	3	159,739,223	141,951,507
Held-to-maturity investments		669,000,000	603,600,000
Scheme funds	4.1	504,000,000	506,100,000
Medical savings account *trust* funds	4.2	165,000,000	97,500,000
Cash and cash equivalents		1,218,415,660	963,145,136
Scheme funds	5.1	1,096,238,830	811,179,588
Medical savings account *trust* funds	5.2	122,176,830	151,965,548
Total assets		**2,052,542,908**	**1,714,136,293**
FUNDS AND LIABILITIES			
Members' funds		1,565,259,261	1,318,649,214
Accumulated funds		1,565,259,261	1,318,649,214
Non-current liability		3,991,000	4,082,000
Post retirement healthcare funding liability	9	3,991,000	4,082,000
Current liabilities		483,292,647	391,405,079
Outstanding risk claims provision	6	91,500,000	62,100,000
Medical savings account *trust* liability	7	302,328,457	255,755,364
Trade and other payables	8	89,464,190	73,549,715
Total funds and liabilities		**2,052,542,908**	**1,714,136,293**

LA HEALTH MEDICAL SCHEME
(Registration no. 1145)

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Notes	2018 R	2017 R
Risk contribution income	10	**2,930,670,112**	**2,533,112,828**
Relevant healthcare expenditure		**(2,423,055,146)**	**(2,060,274,614)**
Net claims incurred		(2,351,879,344)	(2,002,910,875)
Risk claims incurred	11	(2,366,942,596)	(2,026,010,249)
Third party claims recoveries		15,063,252	23,099,374
Net expense on risk transfer arrangements	13	(3,333,709)	(301,190)
Risk transfer arrangement fees paid		(21,353,570)	(19,303,869)
Recoveries from risk transfer arrangements		18,019,861	19,002,679
Managed care: management services	12	(67,842,093)	(57,062,549)
Gross healthcare results		**507,614,966**	**472,838,214**
Broker services fees		(73,702,841)	(61,188,230)
Administration fees		(260,074,483)	(217,351,819)
Sundry expenses	14	(18,343,077)	(16,198,166)
Impairment losses on healthcare receivables	15	(14,367,493)	(7,025,954)
Net healthcare results		**141,127,072**	**171,074,045**
Other income		**124,154,307**	**105,096,720**
Investment income		121,041,066	105,194,498
Scheme		102,003,734	88,334,567
Return on medical savings account *trust* monies invested		19,037,332	16,859,931
Sundry income/(expense)	16	3,113,241	(97,778)
Other expenditure		**(19,037,332)**	**(16,859,931)**
Interest paid on medical savings accounts		(19,037,332)	(16,859,931)
Net surplus for the year		**246,244,047**	**259,310,834**
Other comprehensive income		**366,000**	**544,000**
Actuarial gain on post retirement healthcare funding liability *		366,000	544,000
Total comprehensive income for the year		**246,610,047**	**259,854,834**

* Note 1.20

LA HEALTH MEDICAL SCHEME
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STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2018

	2018 R	2017 R
	Accumulated funds	**Accumulated funds**
Balance at 1 January	**1,318,649,214**	**1,058,794,380**
Changes in funds and reserves	**366,000**	**544,000**
Actuarial gain on post retirement healthcare funding liability	366,000	544,000
Net surplus for the year	**246,244,047**	**259,310,834**
Balance at 31 December	**1,565,259,261**	**1,318,649,214**

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STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

	Notes	2018 R	2017 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows from operations before working capital changes	17	144,588,575	171,338,330
Working capital changes			
• Increase in trade and other receivables		(17,787,716)	(21,176,234)
• Increase in medical savings account *trust* liability		46,573,093	41,024,351
• Increase in outstanding claims provision		29,400,000	2,500,000
• Increase in trade and other payables		15,914,475	6,039,457
Net cash flows from operating activities		**218,688,427**	**199,725,904**
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment		(26,496)	(27,159)
Additions to held-to-maturity investments			
Scheme funds		-	(2,100,000)
Medical savings account *trust* funds		(67,500,000)	-
Disposal of held-to-maturity investments			
Scheme funds		2,100,000	-
Decrease in loans to employees		4,859	135,004
Interest income			
Scheme		102,003,734	88,334,567
Return on medical savings account *trust* monies invested		19,037,332	16,859,931
Interest paid		(19,037,332)	(16,859,931)
Net cash flows from investing activities		**36,582,097**	**86,342,412**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**255,270,524**	**286,068,316**
Cash and cash equivalents at beginning of year		963,145,136	677,076,820
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	**1,218,415,660**	**963,145,136**
Scheme funds		1,096,238,830	811,179,588
Medical savings account *trust* funds		122,176,830	151,965,548

GENERAL INFORMATION

LA Health Medical Scheme is a not-for-profit restricted medical scheme registered under the Medical Schemes Act of South Africa.

The Scheme offers the insurance of hospital, chronic illness and day-to-day benefits and is administered by Discovery Health (Pty) Ltd, a wholly-owned subsidiary of Discovery Holdings Limited, listed in the insurance sector of the JSE Limited.

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented.

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Medical Schemes Act of South Africa (the Act). The financial statements are prepared on the going concern principle using the historical cost basis.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out those areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the Scheme's financial statements (Note 24).

These financial statements are presented in Rands, which is the Scheme's functional currency. All amounts have been rounded to the nearest Rand. The financial statements were approved by the Trustees on 17 April 2019.

New standards, amendments and interpretations effective in 2018 and relevant to the Scheme

Title	Effective date - financial year commencing on
IFRS 9 Financial Instruments - on 24 July 2014, the 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 the Scheme's financial assets to 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, while early adoption is permitted. 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 • its activities are predominantly connected with insurance at its reporting date. The Scheme meets both the criteria and has decided to apply the exemption to defer the application of IFRS 9 to 1 January 2021.	1 Jan 2018 (For issuers of financial statements who will be applying IFRS17 Insurance Contracts, the implementation can be deferred until 1 January 2021.

1.1 Basis of preparation (continued)

New standards, amendments and interpretations not yet effective in 2018 and relevant to the Scheme

Title	Effective date - financial year commencing on
IFRS 17 Insurance Contracts - IFRS 17 supersedes IFRS 4 Insurance Contracts and aims to increase comparability and transparency about 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 OCI. 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 entity's financial statements. The entity 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 Jan 2021

1.2 Property and equipment

Buildings are initially recognised at cost and thereafter at revalued amounts, being its fair value at the date of revaluation less any subsequent depreciation and subsequent accumulated impairment losses. Buildings are revalued every three years by an independent valuator. Any surplus arising on revaluation is recognised directly in the revaluation reserve in equity.

Equipment is reflected at historical cost less accumulated depreciation and impairments. Depreciation is charged on the straight-line basis over the estimated useful lives of the assets.

The respective depreciation rates used are:

Computer equipment	33%
Office machines & equipment	20%
Office furniture & fittings	10%

Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Maintenance and repairs are expensed as incurred.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with its carrying amount. Gains and losses on the disposal of property and equipment is recognised in profit or loss.

Depreciation methods, residual values and useful lives of property and equipment are reviewed annually at each reporting date.

1.3 Classification, recognition, presentation and derecognition of financial instruments

The Scheme recognises a financial instrument when, and only when, it becomes a party to the contractual provisions of the instrument. The Scheme has the following financial instrument categories: Held-to-maturity investments, loans and receivables and financial liabilities. The Scheme has grouped its financial instruments into the following classes:

- Trade and other receivables;
- Held-to-maturity investments;
- Cash and cash equivalents;
- Trade and other payables; and
- Medical savings accounts.

The classification depends on the purpose for which the financial instruments were entered into. Management determines the classification of financial instruments at initial recognition. All purchases and sales of financial instruments are recognised on the trade date, which is the date on which the Scheme commits to purchase the financial asset or assume financial liability.

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

1.3 Classification, recognition, presentation and derecognition of financial instruments (continued)

Derecognition of financial assets and liabilities
The Scheme derecognises a financial asset when the contractual rights to the asset expire, where there is a transfer of the contractual rights that comprise the asset, or the Scheme retains the contractual rights of the asset but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

The Scheme derecognises a financial liability when the contractual obligations are discharged or expire.

1.4 Financial assets: Initial and subsequent measurement

Non-derivative financial instruments are recognised initially at fair value and instruments not at fair value through profit or loss include any directly attributable transaction costs.

Held-to-maturity investments
Held-to-maturity investments are recognised initially at fair value plus any directly attributable transaction costs. When the Scheme has the positive intent and ability to hold fixed deposits to maturity, they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Scheme's loans and receivables comprise trade and other receivables and cash and cash equivalents.

Subsequently loans and receivables are measured at amortised cost using the effective interest method, less impairment. An impairment of trade receivables is established when there is objective evidence that the Scheme will not be able to collect all amounts due according to the original terms of the receivables.

Insurance receivables
Insurance receivables comprise contributions outstanding and recoveries from members and suppliers. Insurance receivables are recognised at cost less impairment losses. Impairment losses on insurance receivables are recognised and determined in a similar manner to impairment losses on financial assets carried at amortised cost (Note 1.7).

1.5 Financial liabilities

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity. Financial liabilities include trade and other payables. The Scheme is not permitted to borrow, in terms of Section 35(6)(c) of the Act. The Scheme therefore has no long-term financial liabilities.

Trade and other payables
Trade and other payables are measured initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. The Scheme's trade and other payables consist of insurance and other liabilities.

Insurance payables
Insurance payables are measured initially at fair value (which approximates cost) and subsequently measured at amortised cost using the effective interest method.

Medical Savings Accounts trust liability
The medical savings account, which is managed by the Scheme on behalf of its members, represents medical savings contributions (which are a deposit component of the insurance contracts), and accrued interest thereon, net of any medical savings claims paid on behalf of members in terms of the Scheme's registered rules.

The deposit component of the insurance contracts has been unbundled, since the Scheme can measure the deposit component separately. The insurance component is recognised as an insurance liability.

Unspent medical savings at year-end are carried forward to meet future expenses for which the members are responsible. 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 medical savings contributions are funded from the Scheme's funds, and the risk of impairment is carried by the Scheme.

The medical savings accounts are invested on behalf of members in call and fixed deposits with banks. These monies are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

1.6 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise:
- Money on call;
- Money market instruments; and
- Current accounts.

Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. Cash and cash equivalents have an insignificant risk of changes in fair value.

1.7 Impairment

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

The Scheme first assesses whether objective evidence of impairment exists individually 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 cash flows recoverable.

If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

Non-financial assets

Calculation of recoverable amount
At each reporting date, the Scheme reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognised in profit or loss.

Reversals of impairment
An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

1.8 Outstanding risk claims provision

Risk claims outstanding comprise provisions for the Scheme's estimate of the ultimate cost of settling all risk claims incurred but not yet reported (IBNR) at the reporting 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.

Claims handling expenses are not separately accounted for as this service is provided by the Administrator and a fixed fee is paid for the full administration service including claims handling. No provision for claims handling expenses is required as the Scheme has no further liability to the Administrator at year end.

Estimated co-payments from medical savings accounts are deducted in calculating the outstanding risk claims provision. The Scheme does not discount its provision for outstanding claims since the effect of the time value of money is not considered material.

1.9 Member insurance contracts

Contracts under which the Scheme accepts significant insurance risk from another party (the member and respective registered dependents) by agreeing to compensate the member or another beneficiary if a specified uncertain future event (the insured event) adversely affects the member or other beneficiary are classified as insurance contracts.

The contracts issued compensate the Scheme's members for healthcare expenses incurred and are detailed in note 22.

1.10 Risk contribution income

Gross contributions comprise of risk contributions and medical savings account contributions.

Risk contributions on member insurance contracts are accounted for monthly when their collection in terms of the insurance contract is reasonably assured. Risk contributions represent gross contributions after deduction of medical savings account contributions. Risk contributions are earned from the date of attachment of insurance risk, over the indemnity period on a straight-line basis and are recognised as revenue.

Risk contributions are shown before the deduction of broker service fees and other similar costs.

1.11 Risk claims incurred

Gross claims incurred comprise of the total estimated cost of all claims arising from healthcare events that have occurred in the year and for which the Scheme is responsible, whether or not reported by the end of the year.

Risk claims incurred (net of claims from medical savings accounts, recoveries from members for co-payments, recoveries from third parties (e.g. motor vehicle accident and forensic recoveries) and discounts received from service providers) comprise:

- Risk claims submitted and accrued for services rendered during the year;
- Payments under provider contracts (managed care) for services rendered to members;
- Over or under provision relating to prior year risk claims accruals;
- Risk claims incurred but not yet reported; and
- Risk claims settled in terms of risk transfer arrangements.

Anticipated recoveries under risk transfer arrangements are disclosed separately as assets and are assessed in a manner similar to the assessment of the outstanding risk claims provision and claims reported not yet paid.

1.12 Risk transfer arrangements

Risk transfer arrangements are contractual arrangements 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 arrangements do not reduce the Scheme's primary obligations to its members and their dependants, but the arrangements only decrease the loss the Scheme may incur as a result of the carrying on the business of a medical scheme.

Risk transfer fees are recognised as an expense over the indemnity period on a straight-line basis.

Risk transfer claims and benefits reimbursed are presented in profit or loss and in the statement of financial position on a gross basis. Only contracts that give rise to a significant transfer of insurance risk are accounted for as a risk transfer arrangement (reinsurance contract). Amounts recoverable under such contracts are recognised in the same year as the related claim.

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

Amounts recoverable under risk transfer arrangements are assessed for impairment at each reporting date. These assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Scheme may not recover all amounts due. The Scheme gathers objective evidence that a risk transfer arrangement asset is impaired using the same process adopted for financial assets held at amortised cost. These processes are described in note 1.7.

1.13 Managed care: management services

Managed care: management services comprise amounts paid or payable to a third party for managing the utilisation, costs and quality of health care services to the members of the Scheme. Managed care: management services fees are expensed as incurred.

1.14 Liability adequacy test

At reporting date, liability adequacy tests are performed to ensure the adequacy of the member insurance contract liability.

Liabilities for insurance contracts are tested for adequacy by discounting current estimates of all future cash flows and comparing this amount to the carrying amount of the liabilities net of any related assets. Where a shortfall is identified, an additional provision is made and charged to profit or loss.

1.15 Investment income

Investment income comprises interest income.

Interest income is recognised on the effective interest method.

1.16 Interest paid on medical savings accounts

The interest paid on medical savings accounts is recognised in profit or loss using the effective interest method.

1.17 Unallocated funds

Unallocated funds arise on the receipt of unidentified deposits in favour of the Scheme.

Unallocated funds older than three years have legally prescribed and are written back and included under other income in profit or loss.

1.18 Income tax

In terms of Section 10(1)(d) of the Income Tax Act, No 58 of 1962, as amended, receipts and accruals of a benefit fund are exempt from normal tax. A medical scheme is included in the definition of a benefit fund and consequently the Scheme is exempt from income tax.

1.19 Allocation of income and expenditure to benefit options

The following items are directly allocated to benefit options:
- Risk contribution income;
- Risk claims incurred;
- Risk transfer arrangement fees;
- Administration fees;
- Managed care: management services; and
- Broker service fees.

The following item is directly allocated based on claims incurred per benefit option:
- Claims recoveries from third parties.

The remaining items are allocated based on the average number of members per benefit option per month.

1.20 Employee benefits

Defined benefit plan - post retirement healthcare

The Scheme provides post-retirement healthcare benefits to some of its current and former employees.

The Scheme's obligation in respect of its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income. The Scheme determines the interest expense on the defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then defined benefit liability, taking into account any changes in the defined benefit liability during the period as a result of contributions and benefit payments. Interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of the plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Scheme recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Scheme has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2. PROPERTY AND EQUIPMENT

	Property	Office machines & equipment	Office furniture & fittings	Total
	R	R	R	R
Year ended 31 December 2018				
Cost				
At the beginning of the year	5,123,475	560,718	294,379	5,978,572
Additions	-	26,496	-	26,496
At the end of the year	**5,123,475**	**587,214**	**294,379**	**6,005,068**
Accumulated depreciation				
At the beginning of the year	-	(457,019)	(86,762)	(543,781)
Depreciation charges	-	(46,152)	(27,110)	(73,262)
At the end of the year	**-**	**(503,171)**	**(113,872)**	**(617,043)**
Carrying amount at the end of the year	**5,123,475**	**84,043**	**180,507**	**5,388,025**

	Property	Office machines & equipment	Office furniture & fittings	Total
	R	R	R	R
Year ended 31 December 2017				
Cost				
At the beginning of the year	5,123,475	533,559	294,379	5,951,413
Additions	-	27,159	-	27,159
At the end of the year	**5,123,475**	**560,718**	**294,379**	**5,978,572**
Accumulated depreciation				
At the beginning of the year	-	(416,066)	(59,652)	(475,718)
Depreciation charges	-	(40,953)	(27,110)	(68,063)
At the end of the year	**-**	**(457,019)**	**(86,762)**	**(543,781)**
Carrying amount at the end of the year	**5,123,475**	**103,699**	**207,617**	**5,434,791**

2. PROPERTY AND EQUIPMENT (continued)

The carrying amounts of property and equipment can be reconciled as follows:

2018	Property	Office machines & equipment	Office furniture & fittings	Total
	R	R	R	R
Net carrying value at beginning of the year	5,123,475	103,699	207,617	5,434,791
Additions	-	26,496	-	26,496
Depreciation	-	(46,152)	(27,110)	(73,262)
Net carrying value at end of year	**5,123,475**	**84,043**	**180,507**	**5,388,025**

2017	Property	Office machines & equipment	Office furniture & fittings	Total
	R	R	R	R
Net carrying value at beginning of the year	5,123,475	117,493	234,727	5,475,695
Additions	-	27,159	-	27,159
Depreciation	-	(40,953)	(27,110)	(68,063)
Net carrying value at end of year	**5,123,475**	**103,699**	**207,617**	**5,434,791**

Details of the property and equipment are recorded in an asset register which may be inspected at the registered office of the Scheme. No assets have been pledged as security.

		2018 R	2017 R
3.	**TRADE AND OTHER RECEIVABLES**		
	Insurance receivables		
	Contributions outstanding	116,813,255	99,151,585
	Amount due	116,813,255	99,151,585
	Recoveries from members and suppliers	7,390,597	8,493,117
	Amount due	23,040,065	19,470,046
	Impairment losses	(15,649,468)	(10,976,929)
	Total receivables arising from insurance contracts	**124,203,852**	**107,644,702**
	Loans and receivables		
	Interest receivable	26,752,471	25,606,193
	Motor vehicle loans	4,859	126,148
	Total outstanding	4,859	131,007
	Less: Long-term portion	-	(4,859)
	Total receivables arising from loans and receivables	**26,757,330**	**25,732,341**
	Other receivables		
	Prepaid expenses	807,463	510,028
	Sundry accounts receivable	7,970,578	8,064,436
	Total receivables arising from other receivables	**8,778,041**	**8,574,464**
	Total trade and other receivables	**159,739,223**	**141,951,507**

At 31 December 2018 the carrying amounts of loans and receivables approximate their fair values due to the short-term maturities of these assets.

The motor vehicle loans carry interest at 8% and is repayable over 72 months with 1 remaining instalment.

		2018 R	2017 R
4.	**HELD-TO-MATURITY INVESTMENTS**		
4.1	**SCHEME FUNDS**		
	Fixed deposit accounts	504,000,000	506,100,000

The weighted average effective interest rate was 8.11% (2017 - 8.35%). The short term deposits have an average maturity of 360 days (2017 - 188 days).

4.2	**MEDICAL SAVINGS ACCOUNT *TRUST* FUNDS**		
	Fixed deposit accounts	165,000,000	97,500,000

The weighted average effective interest rate was 8.03% (2017 - 8.29%). The short term deposits have an average maturity of 365 days (2017 - 286 days).

Total held-to-maturity investments	**669,000,000**	**603,600,000**

At 31 December 2018 the carrying amounts of held-to-maturity investments approximate their fair values due to the short term maturities of these assets.

5.	**CASH AND CASH EQUIVALENTS**		
5.1	**SCHEME FUNDS**		
	Current accounts	132,969,770	147,520,158
	Money market instruments	963,269,060	663,659,430
	Total scheme funds invested	**1,096,238,830**	**811,179,588**

The weighted average effective interest rate on cash and cash equivalents was 7.73% (2017 - 8%). These funds have an average maturity of 1 day (2017 - 1 day).

At 31 December 2018 the carrying amounts of cash and cash equivalents approximate their fair values due to the short term maturities of these assets.

5.2	**MEDICAL SAVINGS ACCOUNT *TRUST* FUNDS**		
	Call account	-	5,900,000
	Current account	142,560	146,065,548
	Money market instruments	122,034,270	-
	Total trust funds invested	**122,176,830**	**151,965,548**

The weighted average effective interest rate on the trust funds was 6.93% (2017 - 6.39%). These funds have an average maturity of 1 day (2017 - 1 day).

At 31 December 2018 the carrying amounts of the trust funds approximate their fair values due to the short-term maturities of these assets.

TOTAL CASH AND CASH EQUIVALENTS	**1,218,415,660**	**963,145,136**

		2018 R	2017 R
6.	**OUTSTANDING RISK CLAIMS PROVISION**		
	Outstanding risk claims provision - not covered by risk transfer arrangements	**91,500,000**	**62,100,000**
	Analysis of movement in outstanding risk claims		
	Balance at beginning of year	62,100,000	59,600,000
	Payments in respect of prior year	(62,915,330)	(55,883,362)
	(Under)/over provision in respect of prior year	(815,330)	3,716,638
	Adjustment for the current year	92,315,330	58,383,362
	Not covered by risk transfer arrangements	92,315,330	58,383,362
	Balance at end of year	**91,500,000**	**62,100,000**
	Analysis of outstanding risk claims provision		
	Estimated gross claims	96,804,605	66,690,594
	Less:		
	Estimated recoveries from medical savings accounts (Note 7)	(5,304,605)	(4,590,594)
	Balance at end of year	**91,500,000**	**62,100,000**

The Scheme's rules, in terms of the Act, provide that risk claims may only be paid if the Scheme is notified of the risk claim and documentation is submitted within 4 months following the month in which the service was rendered.

The outstanding risk claims provision is an estimate of the proportion of the risk claims liability incurred in the current financial year that is expected to be reported and only paid after the reporting date. The cost of outstanding risk claims is estimated as the difference between the risk management facility's estimate of risk claims incurred in 2018 and the actual risk claims reported and paid in 2019, for services provided in 2018.

The risk claims incurred by service date estimates are based on the Scheme's actual demographic structure and past claims. Due to differences in claiming patterns, risk claims are grouped into in-hospital, chronic and out-of-hospital claim categories, and the risk claims incurred are assessed separately for each category. Results from the assessment are regularly reconciled with actual paid risk claims and adjustments made where necessary to ensure that these results remain accurate.

Process used to determine the assumptions
The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually.

This process is done on a monthly basis and regularly reconciled with the actual experience.

The provision is determined by the Scheme's actuary and is estimated using a range of statistical methods.

6. OUTSTANDING RISK CLAIMS PROVISION (continued)

Assumptions
The assumptions that have the greatest effect on the measurement of the outstanding risk claims provision are the expected claims ratios for the most recent benefit years for the in-hospital, chronic and out-of-hospital categories of claims. These are used for assessing the outstanding risk claims provisions for the 2018 and 2017 benefit years.

The assumptions used in estimating the risk claims incurred for the Scheme are as follows:

Membership
The actual demographics of the Scheme were used, incorporating all membership movements for the period January to December. Membership is analysed on a beneficiary level by option, age, gender, area, type of dependant and chronic status of dependant.

Reasonability checks
This estimation was tested against estimations produced by the following calculations:
- Actual risk claims paid in 2018 for 2017;
- Traditional "chain ladder" methods, using risk claims development patterns derived from 2017 and 2018 as well as an analysis of the development patterns of December 2018 in isolation (i.e adjustments for seasonality); and
- An analysis of risk claims already paid in 2019 for 2018.

Refer to note 22 for an analysis of the impact of changes in assumptions and sensitivities to changes in key variables.

		2018 R	2017 R
7.	**MEDICAL SAVINGS ACCOUNT (MSA) *TRUST* LIABILITY**		
	Balance on MSA liability at the beginning of the year	255,755,364	214,731,013
	Add:		
	MSA contributions received for the current year (Note 10)	701,412,781	592,710,292
	Transfers received from other medical schemes	546,707	648,969
	Return on medical savings account *trust* monies invested	19,037,332	16,859,931
	Less:		
	Claims paid to or on behalf of members (Note 11)	(662,611,680)	(557,116,604)
	Refunds on death or resignation	(11,812,047)	(12,078,237)
	Balance on MSA liability at the end of the year	**302,328,457**	**255,755,364**

In accordance with the rules of the Scheme, the MSA is underwritten by the Scheme.

MSAs contain a demand feature. In terms of Regulation 10 of the Act, any credit balance on a member's MSA must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit option, and enrols in another benefit option or medical scheme without a MSA, or does not enrol in another medical scheme.

Estimated claims to be paid out of members' MSA in respect of claims incurred in 2018 but not reported: (Note 6)	**5,304,605**	**4,590,594**

Actual interest earned, net of related expenses, is paid on MSA. Investment of MSA *trust* monies managed by the Scheme on behalf of its members, has been separately disclosed under notes 4 and 5.

The mismatch between the MSA *trust* liability and the MSA *trust* funds relate to timing differences. These differences are cleared after year-end.

At 31 December 2018 the carrying amount of the MSA *trust* liability approximates its fair value, since it is payable on demand. These amounts were not discounted to present values due to their demand feature.

		2018 R	2017 R
8.	**TRADE AND OTHER PAYABLES**		
	Insurance liabilities		
	Member and supplier liability - stale cheques	102,155	901,645
	Reported claims not yet paid	49,786,481	39,401,297
	Member balances	17,461,432	13,447,755
	Supplier balances	32,325,049	25,953,542
	Unallocated receipts	1,003,536	2,329,326
	Total liabilities arising from insurance contracts	**50,892,172**	**42,632,268**
	Other liabilities		
	Broker fees	7,719,408	5,230,885
	Related party balance	29,098,519	24,193,522
	Discovery Health (Pty) Ltd (Note 19)	29,098,519	24,193,522
	Other payables and accrued expenses	1,051,091	958,276
	Audit fee accrual	703,000	534,764
	Total financial liabilities	**38,572,018**	**30,917,447**
	Total trade and other payables	**89,464,190**	**73,549,715**

At 31 December 2018 the carrying amounts of other liabilities approximate their fair values due to the short-term maturities of these liabilities.

		2018 R	2017 R
9.	**POST RETIREMENT HEALTHCARE FUNDING**		
	Provision for post retirement healthcare funding		
	Change in liability		
	Opening balance	4,082,000	4,332,000
	Service cost	75,000	83,000
	Interest cost	399,000	402,000
	Actuarial (gain)/loss arising from demographic assumptions	(94,000)	69,000
	Actuarial gain arising from financial assumptions	(344,000)	(396,000)
	Actuarial loss/(gain) other	72,000	(217,000)
	Benefits paid	(199,000)	(191,000)
	Closing balance	**3,991,000**	**4,082,000**
	Change in plan assets		
	Opening Balance	-	-
	Contributions by employer	199,000	191,000
	Benefits Paid	(199,000)	(191,000)
	Closing Balance	-	-
	Statement of comprehensive income		
	Service cost	75,000	83,000
	Interest cost	399,000	402,000
	Amount recognised in profit or loss	**474,000**	**485,000**
	Other comprehensive income		
	Actuarial gain	366,000	544,000
	Amount recognised in other comprehensive income	**366,000**	**544,000**
	Reconciliation of item in statement of financial position		
	Opening value	4,082,000	4,332,000
	Employer contribution	(199,000)	(191,000)
	Amount recognised in profit or loss	474,000	485,000
	Amount recognised in other comprehensive income	(366,000)	(544,000)
	Closing value	**3,991,000**	**4,082,000**
	Key valuation assumptions		
	Discount rate	10.34%	9.33%
	Medical aid inflation	8.94%	9.33%
	Sensitivity of results		
	1% increase in medical aid inflation		
	Increase in liability	506,000	560,000
	Increase in service cost and interest cost	66,000	73,000
	1% decrease in medical aid inflation		
	Decrease in liability	421,000	461,000
	Decrease in service cost and interest cost	56,000	60,000

		2018 R	2017 R
10.	**RISK CONTRIBUTION INCOME**		
	Gross contributions per registered rules	3,632,082,893	3,125,823,120
	Less: medical savings account contributions received*	(701,412,781)	(592,710,292)
	Risk contribution income per statement of comprehensive income	**2,930,670,112**	**2,533,112,828**

* The medical savings account contributions are received by the Scheme in terms of Regulation 10(1) and the Scheme's registered rules and held in *trust* on behalf of members. Refer to note 7 for more detail on how these monies were utilised.

11.	**RISK CLAIMS INCURRED**		
	Current year claims per registered rules	2,982,134,415	2,561,624,174
	Movement in outstanding risk claims provision	29,400,000	2,500,000
	Under/(over) provision in respect of prior year (Note 6)	815,330	(3,716,638)
	Adjustment for current year	28,584,670	6,216,638
	Claims paid from medical savings accounts*	(662,611,680)	(557,116,604)
	Claims incurred excluding claims incurred in respect of risk transfer arrangements	2,348,922,735	2,007,007,570
	Claims incurred in respect of risk transfer arrangements	18,019,861	19,002,679
	Risk claims incurred	**2,366,942,596**	**2,026,010,249**

* Claims are paid on behalf of the members from medical savings accounts in terms of Regulation 10(3) and the Scheme's registered benefits. Refer to note 7 for a breakdown of the movement in these balances.

12.	**MANAGED CARE: MANAGEMENT SERVICES**		
	Clinical claims review and management	20,355,303	17,688,917
	Disease management	21,710,539	18,257,489
	Pharmaceutical benefit management	6,776,185	5,709,414
	Network management	19,000,066	15,406,729
		67,842,093	**57,062,549**

		2018 R	2017 R
13.	**NET EXPENSE ON RISK TRANSFER ARRANGEMENTS**		
	Capitation fees paid	(21,353,570)	(19,303,869)
	Recoveries under risk transfer arrangements	18,019,861	19,002,679
		(3,333,709)	**(301,190)**

During 2018 the Scheme had three risk transfer arrangements in place. The methodologies used to determine the claims covered by these arrangements are set out below.

1. Risk transfer arrangement providing optometry services for members on the LA KeyPlus option.

   The utilisation experience for these members is obtained from the service provider. The average cost to the Scheme for consultations, lenses, frames and contact lenses is calculated and multiplied by the utilisation experience to estimate the claims under this arrangement.

2. Risk transfer arrangement providing dentistry services to members on the LA KeyPlus and LA Focus options.

   The Scheme had access to the actual claims relating to these members and has disclosed these claims paid under this arrangement.

3. Risk transfer arrangement covering treatment for LA Comprehensive and LA Core members diagnosed with diabetes.

   On these two benefit options members may choose to use the Centre for Diabetes and Endocrinology (CDE) for diabetes-related treatment and care. As the risk profile of the two groups of members are similar, the claims experience of LA Comprehensive and LA Core members who have not elected to use this provider was used to estimate the members' fee-for-service cost for those who have elected to use this provider.

The cost of providing the capitated services was estimated as follows:

- The claims experience of the non-CDE members was used to estimate the CDE members' fee-for-service cost;
- Per life per month estimates were calculated for consultations, procedures, medication and hospital admissions to the extent that these services were covered under this risk transfer arrangement for LA Comprehensive and LA Core members who have not elected this provider;
- The expected fee-for-service cost was calculated by multiplying the calculated per life per month costs by the number of members exposed for the period on this programme; and
- The costs were split based on whether the registered member was a Type I or Type II diabetic.

13. NET EXPENSE ON RISK TRANSFER ARRANGEMENTS (continued)

Service providers in 2018		Nature of risk covered	Term	Basis of fees
Optical Management	**Iso Leso Optics (Pty) Ltd**	Iso Leso Optics (Pty) Ltd is an accredited managed care organisation providing services to and in respect of optometric services and/or optical dispensing services and supplies, as stipulated in the Agreement. This relates to the LA KeyPlus option only.	Renewable annually.	The capitation fee is based on the number of beneficiaries on the LA KeyPlus option.
Dental Benefit Management	**Dental Risk Company (Pty) Ltd**	Dental Risk Company (Pty) Ltd is a managed care organisation providing services relating to dental services rendered by the DRC Network of Dental Providers, as stipulated in the Agreement. This relates to the LA KeyPlus and LA Focus options only.	Renewable annually.	The capitation fee is based on the number of beneficiaries on the LA KeyPlus and Focus options.
Disease Management	**CDE Holdings (Pty) Ltd**	CDE Holdings (Pty) Ltd is an accredited managed care organisation providing services to and in respect of the treatment of Diabetes as stipulated in the Agreement. This relates to the LA Comprehensive and LA Core options only.	Renewable annually.	The capitation fee is based on the number of enrolled beneficiaries and varies per diabetes type.

		2018 R	2017 R
14.	**SUNDRY EXPENSES**		
	Actuarial consulting fees	783,809	719,293
	Association fees	522,523	461,452
	Audit Committee expenses	85,572	111,698
	Audit fees	721,351	683,395
	Audit services - current year	703,000	666,000
	Under provision - prior year	7,288	7,309
	Other services	11,063	10,086
	Board of Trustees' reimbursements and remuneration (Note 21)	2,960,467	2,848,547
	Council for Medical Schemes fees	2,453,469	2,105,790
	Depreciation	73,262	68,063
	Election costs	886,728	-
	Fidelity guarantee and professional indemnity insurance premiums	10,195	9,625
	Legal expenses	-	500
	Managed care: management services (non-accredited)	295,680	281,604
	Medical emergency call centre	311,542	261,672
	Meeting facility costs	170,764	188,092
	Public relations and communications	491,298	674,860
	Rental and maintenance contract cost	88,508	24,045
	Short term insurance	17,728	55,153
	Other administration expenses	8,470,181	7,704,377
	Bank charges	504,585	500,093
	Office support	167,398	133,928
	Other expenses	723,460	733,321
	Maintenance of equipment	47,726	47,401
	Post retirement healthcare costs	275,000	294,000
	Printing, stationery and postage	39,732	34,378
	Staff costs	6,712,280	5,961,256
		18,343,077	**16,198,166**

15.	**IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES**		
	Insurance receivables		
	Members' and service providers' portions that are not recoverable	14,367,493	7,025,954
	Increase in impairment	4,672,539	4,675,576
	Written off	9,694,954	2,350,378
		14,367,493	**7,025,954**

		2018 R	2017 R
16.	**SUNDRY INCOME**		
	Prescribed cheques written back	160,204	18,377
	Reversal of stale cheques	-	(116,155)
	Other income	2,953,037	-
		3,113,241	**(97,778)**
17.	**CASH FLOWS FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES**		
	Surplus for the year	246,244,047	259,310,834
	Adjustments for:		
	Depreciation (Note 2)	73,262	68,063
	Provision for post retirement healthcare funding (Note 9)	275,000	294,000
	Interest received		
	Scheme	(102,003,734)	(88,334,567)
	Return on medical savings account *trust* monies invested	(19,037,332)	(16,859,931)
	Interest paid	19,037,332	16,859,931
	Cash flows from operations before working capital changes	**144,588,575**	**171,338,330**

18. EVENTS AFTER THE REPORTING DATE

There have been no facts or circumstances of a material nature that have occurred between the accounting date and the date of this report.

19. RELATED PARTY TRANSACTIONS

Parties with significant influence over the Scheme:

Board of Trustees
There were 16 elected trustees during the year.

Administrator and managed care organisation
Discovery Health (Pty) Ltd has significant influence over the Scheme as Discovery Health (Pty) Ltd participates in the Scheme's financial and operating policy decisions, but does not control the Scheme. Discovery Health (Pty) Ltd provides administration and managed care management services.

Discovery Third Party Collection Services
The Scheme has contracted Discovery Third Party Recovery Services (Pty) Ltd (DTPRS), a wholly owned subsidiary of Discovery Health (Pty) Ltd, to manage the identification and collection of third party recoveries from the Road Accident Fund.

Key management personnel:
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 of Trustees and Principal Officer. This disclosure deals with full-time personnel who are compensated on a salary basis (Principal Officer), and Board of Trustee members who are paid a monthly retainer and reimbursed for costs incurred.

Close family members include close family members of the Board of Trustees and Principal Officer, and are also related parties.

Transactions with related parties

The following provides the total transaction amounts, which have been entered into with related parties for the relevant financial year. These transactions are done at arm's length.

Key management personnel (Board of Trustees and Principal Officer) and their close family members

	2018 R	2017 R
Statement of comprehensive income		
Gross contributions received	1,298,202	1,266,744
Gross claims incurred	(1,005,019)	(936,241)
Office of the Principal Officer	(3,876,858)	(3,550,423)
Board of Trustees' reimbursements and remuneration (Note 21)	(2,960,467)	(2,848,547)
Interest on medical savings account balances	(452)	(480)
Statement of financial position		
Medical savings account balances	(8,821)	(7,599)

19. RELATED PARTY TRANSACTIONS (continued)

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

Transaction	Nature of transactions and terms and conditions thereof
Contributions received	This constitutes the contributions paid by the related parties as members of the Scheme, in their individual capacity. All contributions were billed on the same terms as those applicable to other members.
Claims incurred	This constitutes amounts claimed by the related parties, in their individual capacity as members of the Scheme. All claims were paid in terms of the rules of the Scheme, as applicable to other members.
Medical savings account balances	The amounts owing to the related parties relate to medical savings account balances to which the parties have a right. The amounts are all current, and would need to be payable on demand should an appropriate claim be issued, or should the member resign from the Scheme.
Medical savings account interest	Interest is earned on positive medical savings account balances at an average effective interest rate of 7.9% (2017: 8.3%) per annum.

19. RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties

	2018 R	2017 R
Discovery Health (Pty) Ltd - Administrator		
Statement of comprehensive income		
Administration fees paid	260,074,483	217,351,819
Medical emergency call centre (Note 14)	311,542	261,672
Discovery Health (Pty) Ltd - managed care organisation		
Statement of comprehensive income		
Managed care: management services	67,842,093	56,780,945
Statement of financial position		
Balance due to Discovery Health (Pty) Ltd at year end (Note 8)	(29,098,519)	(24,193,522)
Discovery Third Party Recovery Services (Pty) Ltd		
Statement of comprehensive income		
Road Accident Fund recoveries	-	4,378,400

The terms and conditions of the transactions with entities with significant influence over the Scheme were as follows:

Administration and managed care management service agreements
The administration and managed care agreements are entered into in terms of the Rules of the Scheme and in accordance with instructions given by the Board of Trustees. These agreements are automatically renewed each year, unless notification of termination is received or following the cancellation of the Administrator's accreditation or the issue of a lawful directive to this effect by the Council for Medical Schemes in terms of the Act. The Scheme and the Administrator are entitled to terminate the agreement by giving notice in writing of not less than 90 days and not more than 180 days. Outstanding balances bear no interest and are due within 7 days. Annual administration fee increases are negotiated by the Board of Trustees in accordance with the relevant terms of these agreements.

20. SURPLUS/(DEFICIT) FROM OPERATIONS PER BENEFIT OPTION

2018	LA CORE	LA COMPREHENSIVE	LA FOCUS	LA ACTIVE	LA KEYPLUS	TOTAL
In-hospital costs covered	100%, no limit	100%, no limit	100%, no limit	100%, no limit	100%, no limit	
Medical savings account	Yes	Yes	Yes	Yes	No	
Chronic conditions	Covering: PMB plus HIV plus Additional conditions	Covering: PMB plus HIV plus Additional conditions	Covering: PMB plus HIV	Covering: PMB plus HIV	Covering: PMB plus HIV	
	R	R	R	R	R	R
Risk contribution income	**311,464,313**	**135,395,750**	**409,446,124**	**1,913,381,731**	**160,982,194**	**2,930,670,112**
Relevant healthcare expenditure	**(325,469,172)**	**(131,142,488)**	**(296,112,711)**	**(1,542,520,813)**	**(127,809,962)**	**(2,423,055,146)**
Net claims incurred	(320,884,676)	(129,412,953)	(279,785,656)	(1,499,456,913)	(122,339,146)	(2,351,879,344)
Risk claims incurred	(321,827,053)	(129,755,991)	(282,626,359)	(1,509,041,443)	(123,691,750)	(2,366,942,596)
Third party claims recoveries	942,377	343,038	2,840,703	9,584,530	1,352,604	15,063,252
Net income/ (expense) on risk transfer arrangements	(255,298)	(148,824)	(3,553,910)	-	624,323	(3,333,709)
Risk transfer arrangement fees/premiums paid	(3,442,286)	(2,006,657)	(10,262,523)	-	(5,642,104)	(21,353,570)
Recoveries from risk transfer arrangements	3,186,988	1,857,833	6,708,613	-	6,266,427	18,019,861
Managed care: management services	(4,329,198)	(1,580,711)	(12,773,145)	(43,063,900)	(6,095,139)	(67,842,093)
Gross healthcare results	**(14,004,859)**	**4,253,262**	**113,333,413**	**370,860,918**	**33,172,232**	**507,614,966**
Broker services fees	(3,315,189)	(1,908,912)	(13,585,743)	(50,174,376)	(4,718,621)	(73,702,841)
Administration fees	(16,972,788)	(6,369,842)	(51,478,863)	(173,005,283)	(12,247,707)	(260,074,483)
Sundry expenses	(1,154,226)	(421,626)	(3,370,014)	(11,789,817)	(1,607,394)	(18,343,077)
Impairment losses on healthcare receivables	(908,220)	(331,617)	(2,708,268)	(9,125,276)	(1,294,112)	(14,367,493)
Net healthcare results	**(36,355,282)**	**(4,778,735)**	**42,190,525**	**126,766,166**	**13,304,398**	**141,127,072**
Other income	8,199,009	2,993,213	24,274,334	79,027,799	9,659,952	124,154,307
Scheme	6,835,734	2,495,522	20,238,165	65,887,602	9,659,952	105,116,975
Return on medical savings account *trust* monies invested	1,363,275	497,691	4,036,169	13,140,197	-	19,037,332
Other expenditure	(1,363,275)	(497,691)	(4,036,169)	(13,140,197)	-	(19,037,332)
Net (deficit)/surplus for the year	**(29,519,548)**	**(2,283,213)**	**62,428,690**	**192,653,768**	**22,964,350**	**246,244,047**
Average membership	***4,730***	***1,727***	***13,956***	***47,051***	***6,660***	***74,124***

20. SURPLUS FROM OPERATIONS PER BENEFIT OPTION (continued)

2017	LA CORE	LA COMPREHENSIVE	LA FOCUS	LA ACTIVE	LA KEYPLUS	TOTAL
In-hospital costs covered	100%, no limit	100%, no limit	100%, no limit	100%, no limit	100%, no limit	
Medical savings account	Yes	Yes	Yes	Yes	No	
Chronic conditions	Covering: PMB plus HIV plus Additional conditions	Covering: PMB plus HIV plus Additional conditions	Covering: PMB plus HIV	Covering: PMB plus HIV	Covering: PMB plus HIV	
	R	R	R	R	R	R
Risk contribution income	**311,479,861**	**142,978,040**	**326,789,474**	**1,595,153,748**	**156,711,705**	**2,533,112,828**
Relevant healthcare expenditure	**(291,680,441)**	**(130,983,674)**	**(242,185,529)**	**(1,272,821,012)**	**(122,603,958)**	**(2,060,274,614)**
Net claims incurred	(287,196,057)	(129,317,577)	(228,696,839)	(1,237,494,705)	(120,205,697)	(2,002,910,875)
Risk claims incurred	(290,508,261)	(130,808,983)	(231,334,377)	(1,251,766,609)	(121,592,019)	(2,026,010,249)
Third party claims recoveries	3,312,204	1,491,407	2,637,538	14,271,904	1,386,321	23,099,374
Net expense on risk transfer arrangements	(284,994)	(32,299)	(3,430,098)	-	3,446,201	(301,190)
Risk transfer arrangement fees/premiums paid	(3,294,147)	(2,120,842)	(8,466,962)	-	(5,421,918)	(19,303,869)
Recoveries from risk transfer arrangements	3,009,153	2,088,543	5,036,864	-	8,868,119	19,002,679
Managed care: management services*	(4,199,390)	(1,633,799)	(10,058,592)	(35,326,307)	(5,844,461)	(57,062,549)
Gross healthcare results	**19,799,420**	**11,994,366**	**84,603,945**	**322,332,736**	**34,107,747**	**472,838,214**
Broker services fees	(3,198,024)	(1,956,109)	(10,603,438)	(40,907,191)	(4,523,468)	(61,188,230)
Administration fees	(16,852,769)	(6,556,674)	(40,366,608)	(141,846,405)	(11,729,363)	(217,351,819)
Sundry expenses	(1,210,028)	(463,263)	(2,839,216)	(10,030,080)	(1,655,579)	(16,198,166)
Impairment losses on healthcare receivables	(525,371)	(200,970)	(1,229,696)	(4,350,468)	(719,449)	(7,025,954)
Net healthcare results	**(1,986,772)**	**2,817,349**	**29,564,987**	**125,198,592**	**15,479,888**	**171,074,045**
Other income	7,968,964	3,050,105	18,791,530	66,262,225	9,023,896	105,096,720
Scheme	6,570,481	2,514,839	15,493,783	54,633,790	9,023,896	88,236,789
Return on medical savings account *trust* monies invested	1,398,483	535,266	3,297,747	11,628,435	-	16,859,931
Other expenditure	(1,398,483)	(535,266)	(3,297,747)	(11,628,435)	-	(16,859,931)
Net surplus for the year	**4,583,709**	**5,332,189**	**45,058,770**	**179,832,382**	**24,503,784**	**259,310,834**
Average membership	***4,923***	***1,884***	***11,600***	***40,914***	***6,758***	***66,079***

21. TRUSTEES' REIMBURSEMENTS AND REMUNERATION 2018

	Location	Subsistence and accommodation R	Travelling R	Conference and other fees R	Telephone R	Strategic session R	Retainer fee R	Total R
Allan, J	Johannesburg	7,213	9,902	-	-	3,960	124,668	145,743
Barnard, RC	Port Elizabeth	14,239	30,796	7,055	-	4,344	124,668	181,102
Bennett, A	Johannesburg	3,423	14,498	5,854	-	14,152	124,668	162,595
Beukman, GJ	Langebaan	18,297	48,450	109,606	3,600	10,738	149,592	340,283
Bosman, R	Johannesburg	8,298	11,476	5,458	-	10,782	124,668	160,682
Botes, C	Durban	10,651	21,306	8,995	-	18,114	124,668	183,734
Botha, H	Mosselbay	14,500	27,913	3,569	-	-	124,668	170,650
De Bruyn, R	Pretoria	8,458	17,786	6,654	-	9,272	124,668	166,838
Denge, R	Johannesburg	6,191	9,915	4,327	-	-	62,334	82,767
Deysel, HA	Queenstown	18,701	50,293	15,527	3,600	11,440	137,124	236,685
Dlamini, M	Johannesburg	4,461	10,253	7,099	-	-	62,334	84,147
Field, R	Cape Town	14,278	25,510	9,359	-	9,789	124,668	183,604
Hoffman, F	Cape Town	12,382	19,207	3,279	-	8,527	124,668	168,063
Lemmer, A	Port Elizabeth	19,103	24,987	8,646	-	6,914	124,668	184,318
Louwrens, P	Johannesburg	6,701	16,117	4,267	-	15,968	124,668	167,721
Mattheus, ME	Port Elizabeth	8,352	11,426	8,694	-	8,087	62,334	98,893
Schultz, MCT	Cape Town	1,636	445	1,428	507	-	62,334	66,350
Vorster, A	Cape Town	8,703	24,195	4,894	-	13,832	124,668	176,292
		185,587	**374,475**	**214,711**	**7,707**	**145,919**	**2,032,068**	**2,960,467**

21. TRUSTEES' REIMBURSEMENTS AND REMUNERATION 2017

	Location	Subsistence and accommodation R	Travelling R	Conference and other fees R	Telephone R	Strategic session R	Retainer fee R	Total R
Allan, J	Johannesburg	4,664	8,203	-	-	9,301	116,508	138,676
Barnard, RC	Port Elizabeth	22,761	24,938	5,728	-	11,354	116,508	181,289
Bennett, A	Johannesburg	18,276	34,557	2,293	-	14,236	116,508	185,870
Beukman, GJ	Langebaan	25,836	54,258	2,902	3,600	7,121	139,800	233,517
Bosman, R	Johannesburg	10,812	23,335	2,208	-	12,984	116,508	165,847
Botes, C	Durban	23,115	29,798	8,309	-	17,122	116,508	194,852
Botha, H	Mosselbay	17,222	18,420	6,647	-	9,023	116,508	167,820
De Bruyn, R	Pretoria	20,338	33,032	222	-	12,748	116,508	182,848
Deysel, HA	Queenstown	22,669	49,938	9,959	3,600	15,705	128,148	230,019
Field, R	Cape Town	20,300	23,411	-	-	5,753	116,508	165,972
Hoffman, F	Cape Town	18,376	15,131	-	-	5,224	116,508	155,239
Lemmer, A	Port Elizabeth	16,502	17,988	6,144	-	9,889	116,508	167,031
Louwrens, P	Johannesburg	12,174	18,966	1,751	-	10,622	116,508	160,021
Mattheus, ME	Port Elizabeth	21,130	38,770	7,684	-	12,542	116,508	196,634
Schultz, MCT	Cape Town	14,650	26,778	2,389	447	4,452	116,508	165,224
Vorster, A	Cape Town	11,504	23,728	-	-	5,948	116,508	157,688
		280,329	**441,251**	**56,236**	**7,647**	**164,024**	**1,899,060**	**2,848,547**

22. INSURANCE RISK MANAGEMENT REPORT

Nature and extent of risks arising from insurance contracts

The primary insurance activity carried out by the Scheme indemnifies covered members and their dependants against the risk of loss arising as a result of the occurrence of a health event (i.e. an event relating to the health of the Scheme's beneficiary). As such, the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. Insurance events are, by nature, random and the actual number and size of events during any one year may vary from those estimated using established techniques. Risk transferred under risk transfer arrangements has been disclosed under note 13.

This section summarises these risks and the ways in which these risks are managed.

Insurance risk

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Scheme faces under its insurance contracts is that the actual claim payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency and severity of claims are greater than estimated.

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 by a change in any subset of the portfolio.

Factors that aggravate insurance risk include changes in membership distribution and major unanticipated demographic movements, adverse experience regarding the cost of prescribed minimum benefits and unusually adverse experience due to seasonal patterns.

The Scheme offers members five benefit options. The main types of benefits offered by the Scheme in return for monthly contributions are indicated below:

Hospital benefits

The hospital benefit covers medical expenses incurred if members are admitted to hospital and defined other high cost treatment authorised by the Scheme.

Chronic Illness Benefit (CIB)

On all benefit options the Scheme provides cover for the Prescribed Minimum Benefit (PMB) chronic conditions and HIV/AIDS. On two of the Options, the Scheme provides extended cover for a defined list of additional chronic conditions.

Day-to-day benefits

The day-to-day benefits, which includes medical savings accounts, cover the cost of out-of-hospital health care services, such as visits to general practitioners and dentists as well as prescribed acute medicine.

22. INSURANCE RISK MANAGEMENT REPORT (continued)

The risks associated with the types of benefits offered to members are addressed below:

Hospital benefit risk

Frequency and severity of claims
The frequency and severity of claims can be affected by several factors. The most significant factor is the hospital admission rate which has a direct impact on the cost of claims.

Certain factors that impact on hospital claims are shown below:

Key indicators	2018	2017	% Increase/ (decrease)
Admission rate	24.00%	24.66%	(2.68)
Events per 1 000 lives	240.01	246.57	(2.66)
Average length of stay (days)	4.01	4.05	(0.99)
Average cost per event	R 38,524	R 36,972	4.20
Average cost per life per month	R 506	R 501	1.00

Initiatives used by the Scheme to manage the risk associated with admission rate include:
- The development of protocols for various procedures;
- The "See your doctor first" initiative which requires members to see their doctor prior to an elective admission; and
- The amendment to the pre-authorisation length of stay benchmarks.

Chronic Illness Benefit (CIB) risk

Frequency and severity of claims
The main factors impacting the frequency and severity of chronic claims are the number of claimants and the cost per claimant. An increase/decrease in the number of claimants results in an increase/decrease in the frequency of claims. Higher increases in claimants and severity of claims may be attributed to increases in the number of claimants at older ages or beneficiaries who are more sickly. Conversely, lower prevalence rates may be indicative of a healthier membership.

22. INSURANCE RISK MANAGEMENT REPORT (continued)

The mix between the various chronic conditions impacts the frequency and severity of claims. Certain factors that impact chronic cost are shown below:

Condition	2018	2017	% Increase/ (decrease)
Claimants per 1000 lives	14.60	14.81	(1.42)
Amount paid per life per month	R 56	R 56	-

Day-to-day benefit risk

Frequency and severity of claims
The Above Threshold Benefit component of the LA Comprehensive option results in the largest day-to-day risk to the Scheme after the threshold is reached. The frequency and severity of claims are driven by the number of claimants, and their health statuses.

Concentration of insurance risk
The following table, based on service date claims (net of adjustments), summarises the concentration of insurance risk, with reference to the carrying amount, per beneficiary, of the insurance claims incurred for service years 2018 and 2017, by age group and in relation to the type of risk cover/benefits provided.

Claims incurred for 2018 service year per beneficiary

Age grouping (in years)	In-hospital R	Chronic R	Day-to-day R	Total R
< 26	4,442	82	1,043	5,567
26 – 35	8,873	355	2,693	11,921
36 – 50	9,318	912	3,667	13,897
> 50	24,348	2,339	6,703	33,390

Claims incurred for 2017 service year per beneficiary

Age grouping (in years)	In-hospital R	Chronic R	Day-to-day R	Total R
< 26	3,877	75	963	4,915
26 – 35	8,721	337	2,570	11,628
36 – 50	8,711	793	3,160	12,664
> 50	29,900	3,002	8,099	41,001

22. INSURANCE RISK MANAGEMENT REPORT (continued)

The Scheme's strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years since it is believed that this reduces the variability of the outcomes on the different benefit options.

The strategy is set out in the annual business plan, which specifies the benefits to be provided, taking into consideration the profile of each benefit option and contributions required to fund expenses.

All contracts are negotiated and renewed in line with the contract stipulations. The Scheme has the right to change the terms and conditions of each contract at renewal. Contracts can be terminated at any time during the year, subject to written notice as required in terms of the contract. Management information, including contribution income and claims ratios by option, is reviewed monthly.

Risk transfer arrangements
The Scheme entered into capitation agreements to cover specific risks. The Scheme has contracts with the Centre for Diabetes and Endocrinology (CDE), Iso Leso and Dental Risk Company.

Risk in terms of risk transfer arrangements
According to the terms of these capitation agreements, the suppliers provide certain specified benefits to Scheme members, as and when required by the members. The Scheme does, however, remain liable to its members if the suppliers fail to meet the obligations they assume.

Claims development
Claims development tables are not presented since the uncertainty regarding the amount and timing of claim payments is typically resolved within one year and the majority of cases within four months. At year end, a provision is made for those risk claims outstanding that are not yet reported at that date. Details regarding the subsequent risk claims development in respect thereof have been disclosed in note 6.

Risk management objectives and policies for mitigating insurance risk
The Scheme manages its insurance risk through benefit limits and sub-limits, application of clinical protocols, approval procedures for transactions that exceed set limits, pricing guidelines, pre-authorisation and case management, service provider profiling, and the regular 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 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/or severity of claims is greater than expected.

22. INSURANCE RISK MANAGEMENT REPORT (continued)

The following factors affect the frequency and severity of claims:

- Fee-for-service provider reimbursement combined with a third-party payer creates the incentive for over servicing of members. The Scheme uses alternative reimbursement arrangements such as fixed fees and capitation fees to mitigate this risk;
- The demographic profile of the membership base i.e. older, sickly members require more frequent and more intense treatment than younger, healthier members. This risk is managed through the regular updating of internal risk management models which assess the impact of any changes to the Scheme's demographic profile;
- Technological advances in healthcare generally increases the cost of treatment. This may be due to either the increased price of the new technology or the increased quantity of treatment. This risk is mitigated through a rigorous health technology assessment process which determines whether the technology is cost-effective and whether it should be funded; and
- The price of covered services affects the severity of claims. This risk is mitigated by the Scheme's Rules, which specify the maximum rate at which each treatment is funded. The Scheme also manages this risk through annual tariff agreements with certain provider groups.

Outstanding risk claims provision

There are some sources of uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for claims made under insurance contracts.

Process used to determine the assumptions
Refer to note 6.

Changes in assumptions and sensitivities to changes in key variables
The table on the next page outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. It should be noted that this is a deterministic approach with no correlations between the key variables. For each sensitivity illustrated, all other assumptions have been left unchanged.

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 to that variable may be required in the future.

22. INSURANCE RISK MANAGEMENT REPORT (continued)

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

The impact on the liability and income caused by changes in relevant risk variables:

	Increase in liability %	Increase in liability 2018 R	Increase in liability 2017 R
In-hospital claims incurred	1% increase in claims costs	16,962,009	14,655,942
Chronic claims incurred	1% increase in claims costs	1,226,397	1,074,654
Out-of-hospital risk claims incurred	1% increase in claims costs	4,996,971	4,279,361

The Scheme is most vulnerable to changes in membership distribution and changes in the underlying rate of inflation, which drives a number of assumptions.

Sensitivity of the Scheme's profitability and reserves to changes in variables that have a material effect on them

The Scheme's profitability, reserves and therefore solvency are most sensitive to changes in risk claims development patterns. Other assumptions that are considered include assumptions regarding utilisation trends, the impact of new technology and the expected demographic profile of the Scheme's membership.

23. FINANCIAL RISK MANAGEMENT REPORT

Overview

The Scheme is exposed to financial risk through its financial assets, financial liabilities and insurance assets and liabilities. In particular, the key financial risk is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Scheme's financial performance.

The Board of Trustees has overall responsibility for the establishment and oversight of the Scheme's risk management framework.

The Scheme manages these risks through various risk management processes. These processes have been developed to ensure that the long-term investment return on assets supporting the insurance liabilities are sufficient to fund members' reasonable benefit expectations.

The Audit Committee has been mandated by the Board of Trustees to monitor the implementation and maintenance of these risk management processes.

Credit risk

Credit risk is the risk of financial loss to the Scheme, if a counterparty to an insurance contract or a financial instrument fails to meet its contractual obligations.

The Scheme's principal financial assets exposed to credit risk include held-to-maturity investments, cash and cash equivalents and trade and other receivables. The Scheme's credit risk is primarily attributable to its insurance and other receivables.

Insurance and other receivables
Trade and other receivables comprise insurance receivables and loans and receivables. The main components of insurance receivables are in respect of:

- Receivables for contributions due from members; and
- Receivables for amounts recoverable from service providers and members in respect of claims debt.

The Scheme manages credit risk by:

- Actively pursuing all contributions not received after 3 days of becoming due, as required by Section 26(7) of the Act;
- Monthly reconciliations between the Administrator and the Employer are discussed for possible suspensions of memberships;

The Scheme establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Details of the process to estimate the impairment provision are included in note 1.7.

23. FINANCIAL RISK MANAGEMENT REPORT (continued)

Investments

The Scheme has no significant concentration of credit risk. Cash transactions are limited to financial institutions with a high credit rating. The Scheme has a policy of limiting the amount of credit exposure to any one financial institution.

The Scheme limits its exposure to credit risk by investing only in liquid securities and only with counterparties that have high credit ratings. Given their high credit ratings, the Trustees do not expect any counterparty to fail to meet its obligations. Annexure B of the Regulations to the Act, prescribes the credit limits per institution, which reduces the individual risk per institution. The exposure to these credit limits are regularly monitored.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure.

Impairment losses

The ageing of insurance receivables at year end was:

	Gross 2018 R	Impairment 2018 R	Gross 2017 R	Impairment 2017 R
Not past due	117,628,848	-	98,528,001	-
Past due 0 - 30 days	1,930,361	-	3,697,655	-
Past due 31 - 90 days	4,335,587	2,046,225	2,678,568	931,739
Past due 91 days +	15,958,524	13,603,243	13,717,407	10,045,190
Total	**139,853,320**	**15,649,468**	**118,621,631**	**10,976,929**

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

	Trade and other receivables		
	Insurance receivables		
	Contribution debtors R	Member and service provider claims debtors R	**Total R**
Balance as at 1 January 2017	-	**6,301,353**	**6,301,353**
Increase in impairment	-	4,675,576	4,675,576
Balance as at 31 December 2017	-	**10,976,929**	**10,976,929**
Balance as at 1 January 2018	-	**10,976,929**	**10,976,929**
Increase in impairment	-	4,672,539	4,672,539
Balance as at 31 December 2018	-	**15,649,468**	**15,649,468**

23. FINANCIAL RISK MANAGEMENT REPORT (continued)

Investments

The table below shows the exposure limit and balance of cash or deposits held (excluding MSA *trust* funds) at five major counterparties at year end.

Counterparty	2018		2017	
	Exposure limit	Balance	Exposure limit	Balance
	R	R	R	R
1	662,481,290	279,045,546	550,264,675	533,312,128
2	662,481,290	141,247,977	550,264,675	134,997,282
3	662,481,290	334,920,106	550,264,675	220,499,639
4	662,481,290	306,511,753	550,264,675	264,134,140
5	662,481,290	459,253,824	550,264,675	374,676,043

No exposure limits were exceeded during the reporting period and the Trustees do not expect any losses from non-performance of these counterparties.

Credit quality of financial assets and insurance receivables

The credit quality of financial assets that are neither past due nor impaired can be assessed by historical information about counterparty default rates:

	2018 R	2017 R
Insurance receivables		
Counterparties without external credit rating:		
Contribution debtors	116,813,255	99,151,585
Members' claim debtors	12,313,391	12,081,381
Providers' claim debtors	10,729,605	7,383,445

Contribution debtors
On analysing the credit quality of contribution debtors, the Scheme collected 99% of these amounts in January 2019. This indicates a high credit quality relating to these debtors.

Member claim debtors
These debtors are active and withdrawn members of the Scheme. Active members are expected to have similar credit quality to the contribution debtors.

Provider claim debtors
These debtors are the healthcare providers of the Scheme. The amounts due to the Scheme are offset against future payments to be made to these providers.

Cash and cash equivalents and medical savings account trust funds

Counterparties with external credit ratings

Banks with high credit ratings	**1,887,415,660**	**1,566,745,136**

23. FINANCIAL RISK MANAGEMENT REPORT (continued)

Unconsolidated investment structures

The Scheme invests monies in reputable funds which promise returns. The Scheme views these funds as unconsolidated structured entities. The Scheme monitors the performance of the funds closely to ensure high earnings without unnecessary exposure to risk.

The money market funds included in cash and cash equivalents meet the definition of investment structures. The Scheme has investments in Nedbank Corporate Money Market Fund, Stanlib Corporate Money Market Fund and Investec Corporate Money Market Fund amounting to R334.2m, R312.2m and R122.0m respectively. The exposure is limited to the investment in these structures.

Liquidity risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The availability of funding through liquid cash positions with various institutions ensures that the Scheme has the ability to fund day-to-day operations. 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.

On average 95% of the Scheme's insurance liabilities are settled within four months after the claim was incurred and the remaining liability is settled within eight months.

A maturity analysis for financial liabilities, including insurance liabilities is provided below:

As at 31 December 2018	Less than 1 year R	Between 1 and 2 years R	Between 2 and 5 years R
Medical savings account *trust* liability (Note 7)	302,328,457	-	-
Trade and other payables (Note 8)	89,464,190	-	-
Outstanding risk claims provision (Note 6)	91,500,000	-	-

As at 31 December 2017	Less than 1 year R	Between 1 and 2 years R	Between 2 and 5 years R
Medical savings account *trust* liability (Note 7)	255,755,364	-	-
Trade and other payables (Note 8)	73,549,715	-	-
Outstanding risk claims provision (Note 6)	62,100,000	-	-

Market risk

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

Currency risk
All of the Scheme's benefits are Rand-denominated and therefore the Scheme does not have significant currency risk.

Price risk
The Scheme is not exposed to equity security price risk or commodity risk.

23. FINANCIAL RISK MANAGEMENT REPORT (continued)

Interest rate risk

The Scheme is exposed to interest rate risk as it places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate investments within the Scheme's investment portfolio.

The table below summarises the Scheme's exposure to interest rate risks. Included in the table are the Scheme's investments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at 31 December 2018	Up to 1 month R	More than 1 month R	Non-interest bearing R	Total R
Call accounts and fixed deposits	54,000,000	450,000,000	-	504,000,000
Current accounts	132,969,770	-	-	132,969,770
Money market instruments	963,269,060	-	-	963,269,060
Medical savings account *trust* funds	137,176,830	150,000,000	-	287,176,830
Total	**1,287,415,660**	**600,000,000**	**-**	**1,887,415,660**

As at 31 December 2017	Up to 1 month R	More than 1 month R	Non-interest bearing R	Total R
Call accounts and fixed deposits	56,100,000	450,000,000	-	506,100,000
Current accounts	147,520,158	-	-	147,520,158
Money market instruments	663,659,430	-	-	663,659,430
Medical savings account *trust* funds	166,965,548	82,500,000	-	249,465,548
Total	**1,034,245,136**	**532,500,000**	**-**	**1,566,745,136**

The table below summarises the effective interest rate for monetary financial instruments:

	2018	2017
Held-to-maturity investments		
Scheme funds	8.11%	8.35%
Medical savings account *trust* funds	8.03%	8.29%
Cash and cash equivalents		
Scheme funds	7.73%	8.00%
Medical savings account *trust* funds	6.93%	6.39%

23. FINANCIAL RISK MANAGEMENT REPORT (continued)

Market risk (continued)

Sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) accumulated funds and surplus or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2017.

	Surplus or deficit and accumulated funds	
	100bp Increase R	100bp Decrease R
31 December 2018	18,874,157	(18,874,157)
Sensitivity (net)	**18,874,157**	**(18,874,157)**
31 December 2017	15,667,451	(15,667,451)
Sensitivity (net)	**15,667,451**	**(15,667,451)**

Legal risk

Legal risk is the risk that the Scheme will be exposed to in respect of contractual obligations which have not been provided for. At 31 December 2018 the Scheme did not consider there to be any significant concentration of legal risk that had not been provided for.

Capital management

The Scheme is subject to the capital requirement imposed by Regulation 29(2) to the Act which requires a minimum solvency ratio of accumulated funds expressed as a percentage of gross contributions to be 25%.

The Scheme's objectives when managing capital are to maintain the capital requirements of the Act and to safeguard the Scheme's ability to continue as a going concern in order to provide benefits for its stakeholders.

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

	2018 R	2017 R
Total members' funds per statement of financial position	1,565,259,261	1,318,649,214
Accumulated funds per Regulation 29	**1,565,259,261**	**1,318,649,214**
Annualised gross contributions (Note 10)	**3,632,082,893**	**3,125,823,120**
Solvency margin		
= Accumulated funds/annualised gross contribution income x 100%	**43.10%**	**42.19%**

The required solvency has been maintained throughout the year.

23. FINANCIAL RISK MANAGEMENT REPORT (continued)

Fair value estimation

The carrying value less impairment of loans and other receivables and payables are assumed to approximate their fair values due to their short-term nature.

The medical savings accounts contain a demand feature. In terms of Regulation 10 to the Act, any credit balance on a member's medical savings account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit option, and enrols in another benefit option or medical scheme without a medical savings account or does not enrol in another medical scheme. Therefore the carrying value of the medical savings accounts are deemed to be equal to their fair values, which is the amount payable on demand. The amounts were not discounted, due to the demand feature.

Continuous monitoring takes place to ensure that appropriate assets are held where the Scheme's liabilities are dependent upon the performance of investments and that a suitable match of assets exists for all liabilities.

Breakdown of investments

The assets of the portfolio (excluding Medical Savings Account *trust* funds) must be invested in accordance with Annexure B of the Regulations to the Act.

The investments for the purposes of the financial statements comprise held-to-maturity investments and cash and cash equivalents.

Held-to-maturity investments
Held-to-maturity investments are made up of the following year end balances:

	2018 R	2017 R
Fixed deposits	669,000,000	603,600,000
Total	**669,000,000**	**603,600,000**

Cash and cash equivalents
Cash and cash equivalents are made up of the following year end balances:

	2018 R	2017 R
Call accounts	-	5,900,000
Current accounts	133,112,330	293,585,706
Money market instruments	1,085,303,330	663,659,430
Total	**1,218,415,660**	**963,145,136**

23. FINANCIAL RISK MANAGEMENT REPORT (continued)

The following table compares the fair value and carrying amounts of financial assets and liabilities per class of financial assets and financial liabilities. The carrying amount equates the fair value.

	Held-to-maturity investments	Financial liabilities at amortised cost	Loans and receivables	Insurance receivables and payables	Total carrying amount
	R	R	R	R	R
For the year ended 31 December 2018					
Held-to-maturity investments					
Scheme funds	504,000,000	-	-	-	**504,000,000**
Medical savings account *trust* funds	165,000,000	-	-	-	**165,000,000**
Cash and cash equivalents					
Scheme funds	-	-	1,096,238,830	-	**1,096,238,830**
Medical savings account *trust* funds	-	-	122,176,830	-	**122,176,830**
Trade and other receivables	-	-	35,535,371	124,203,852	**159,739,223**
Medical savings accounts	-	(302,328,457)	-	-	**(302,328,457)**
Trade and other payables	-	(38,572,018)	-	(50,892,172)	**(89,464,190)**
	669,000,000	(340,900,475)	1,253,951,031	73,311,680	**1,655,362,236**
For the year ended 31 December 2017					
Held-to-maturity investments					
Scheme funds	506,100,000	-	-	-	**506,100,000**
Medical savings account *trust* funds	97,500,000	-	-	-	**97,500,000**
Cash and cash equivalents					
Scheme funds	-	-	811,179,588	-	**811,179,588**
Medical savings account *trust* funds	-	-	151,965,548	-	**151,965,548**
Trade and other receivables	-	-	34,306,805	107,644,702	**141,951,507**
Medical savings accounts	-	(255,755,364)	-	-	**(255,755,364)**
Trade and other payables	-	(30,917,447)	-	(42,632,268)	**(73,549,715)**
	603,600,000	(286,672,811)	997,451,941	65,012,434	**1,379,391,564**

24. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Scheme makes estimates and assumptions concerning the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Outstanding risk claims provision
The critical estimates and judgements relating to the outstanding claims provision are set out under note 6.

Risk transfer arrangements
The critical estimates and judgements relating to risk transfer arrangements are set out under note 13.

Valuation 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 market price (unadjusted in an active market for an identical instrument).
- 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 from market data.
- Level 3: Valuation techniques using significant unobservable inputs. 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 instrument's 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 Scheme's financial instruments, measured at fair value at the end of the reporting period, are all categorised as Level 1 investments.

Unconsolidated investment structures
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 the administrative tasks only;
- each fund's activities are restricted by prospectus; and
- the funds have narrow and well-defined objectives to provide investment opportunities.

Unconsolidated investment structures are disclosed in note 23.

25. NON-COMPLIANCE MATTER

25.1 Sustainability of benefit options

In terms of Section 33(2) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound.

At 31 December 2018 two of the Scheme's benefit options did not comply with Section 33(2):

Option	2018 Net healthcare deficit R	2017 Net healthcare deficit R
LA Comprehensive	(4,778,735)	-
LA Core	(36,355,282)	(1,986,772)

The Board of Trustees addresses the sustainability of all Options during their annual strategic conference and subsequent budgetary process. Fair consideration was given to the affordability of the benefits in these Options for registered beneficiaries, by taking into account investment income.

25.2 Contributions not received within three days of it becoming due

In terms of Section 26(7) of the Act, all contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due.

There were instances, during the year, where the Scheme received contributions after three days of becoming due, however, there are no contracts in place agreeing to this arrangement.

The procedures that the Scheme follows regarding these contributions are set out in Note 23.

25.3 Payment of claims in excess of 30 days from receipt

In terms of Section 59(2) of the Act, a medical scheme shall 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.

There were instances during the year where a total of 89 claims were paid after 30 days of receipt. This was due to operational scheduling of claims payment runs.

Actions will be taken to proactively manage the scheduling of claims payment runs over weekends or public holidays.

26. COMMITMENTS AND OTHER CONTINGENT LIABILITIES

The Scheme does not have any commitments or contingent liabilities outstanding at 31 December 2018.

REPORT OF THE BOARD OF TRUSTEES

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

1. DESCRIPTION OF MEDICAL SCHEME

1.1 Terms of registration

LA Health Medical Scheme is a not-for-profit restricted Scheme registered in terms of the Medical Schemes Act, No 131 of 1998 (the Act), as amended.

1.2 Benefit options within LA Health Medical Scheme

The Scheme offers five benefit options to members within local government.
LA Core;
LA Comprehensive;
LA Focus;
LA Active; and
LA KeyPlus.

1.3 Medical Savings Account *trust* liability

On all benefit options except LA KeyPlus, members pay an agreed sum, less than or limited to 25% of their gross contributions, into a medical savings account (MSA). The full annual amount is made available for use on 1 January of each year although members only contribute towards this monthly. The MSA provides members with adequate cover for medical expenses they may incur outside of hospital, up to a prescribed limit, for different types of medical treatment such as dental care, optometry and acute medicine.

The balance remaining in the MSA at the end of each calendar year is carried over to the following year for the benefit of the member.

Actual interest earned, net of related expenses, is paid on Medical Savings Accounts.

The MSA is reflected as a current liability in the financial statements and is repayable in terms of Regulation 10 of the Act.

Investment of MSA *trust* monies, managed by the Scheme on behalf of its members, has been separately disclosed as a current asset in the financial statements.

1.4 Risk transfer arrangements

The Scheme entered into three risk transfer arrangements. The Centre for Diabetes and Endocrinology protects the Scheme from any unusual exposure to high cost incidence claims for its members, registered on the Chronic Illness Benefit for Diabetes, on the LA Comprehensive and LA Core options. Iso Leso (Pty) Ltd and the Dental Risk Company (Pty) Ltd manage some of the primary care costs on the LA KeyPlus and LA Focus options.

2. MANAGEMENT

2.1 Board of Trustees in office during the year under review

Mr GJ Beukman	Elected (Chairperson)
Mr HA Deysel	Elected (Deputy Chairperson)
Mr J Allan	Elected
Mr RC Barnard	Elected
Mr A Bennett	Elected
Mr R Bosman	Elected
Ms C Botes	Elected
Mr H Botha	Elected
Mr R de Bruyn	Elected
Mr R Denge	Elected (1 July 2018)
Mr M Dlamini	Elected (1 July 2018)
Mr R Field	Elected
Mr F Hoffman	Elected
Mr A Lemmer	Elected
Mr P Louwrens	Elected
Mr ME Mattheus	Elected (End of term 30 June 2018)
Mr MCT Schultz	Elected (End of term 30 June 2018)
Mr A Vorster	Elected

2.2 Principal Officer

AM de Koker
Combined HQ, Unit 7, Level 2
4 Bridal Close
Tyger Falls
7530

2.3 Registered office address and postal address

Combined HQ, Unit 7, Level 2	Postnet Suite 116
4 Bridal Close	Private Bag X19
Tyger Falls	Milnerton
7530	7435

2.4 Scheme's administrator during the year

Discovery Health (Pty) Ltd	
1 Discovery Place	PO Box 652509
Sandton	Benmore
2146	2010

2.5 Principal Banker

First National Bank
PO Box 1153
Johannesburg
2000

2.6 Auditor

KPMG Inc.	
KPMG Crescent	Private Bag 9
85 Empire Road	Parkview
Parktown	2122
2193	

3. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

3.1 Operational statistics

2018	LA CORE	LA COMP *	LA FOCUS	LA ACTIVE	LA KEYPLUS	TOTAL
Number of members at end of the accounting period	4,621	1,680	14,692	47,927	7,084	76,004
Average number of members for the accounting period	4,730	1,727	13,956	47,051	6,660	74,124
Average number of beneficiaries for the accounting period	7,207	2,311	34,405	122,837	15,526	182,286
Beneficiaries per member	1.52	1.34	2.47	2.61	2.33	2.46
Average age per beneficiary	64.51	67.00	26.43	28.13	27.23	29.54
Pensioner ratio (beneficiaries >65 years old)	61.24%	65.64%	1.60%	3.09%	1.12%	5.55%
Average risk contribution per member per month	R5,487.29	R6,532.97	R2,444.95	R3,388.84	R2,014.44	R3,294.78
Average risk contribution per beneficiary per month	R3,601.41	R4,882.29	R991.74	R1,298.05	R864.07	R1,339.77
Average relevant healthcare expenditure per member per month	R5,734.03	R6,327.74	R1,768.20	R2,732.00	R1,599.34	R2,724.09
Average relevant healthcare expenditure per beneficiary per month	R3,763.35	R4,728.92	R717.23	R1,046.45	R686.02	R1,107.71
Administration fee per member per month	R308.04	R308.04	R308.04	R308.04	R154.05	R292.39
Average sundry expense per member per month	R36.34	R36.34	R36.30	R37.04	R36.31	R36.77
Average broker fees per member per month	R58.41	R92.11	R81.13	R88.87	R59.05	R82.86
Managed care: management services per member per month	R76.76	R76.76	R76.76	R76.76	R76.76	R76.76
Relevant healthcare expenditure as a percentage of risk contributions	104.5%	96.9%	72.3%	80.6%	79.4%	82.7%
Non-healthcare expenditure as a percentage of risk contributions	7.3%	6.7%	17.4%	12.8%	12.4%	12.5%
Return on investments as a percentage of investments						11.10%
Accumulated funds per member at 31 December						R20,594
Average medical savings account balance per member at 31 December						R3,978

* - LA Comprehensive

3. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

3.1 Operational statistics

2017	LA CORE	LA COMP *	LA FOCUS	LA ACTIVE	LA KEYPLUS	TOTAL
Number of members at end of the accounting period	4,831	1,839	12,136	41,871	6,939	67,616
Average number of members for the accounting period	4,923	1,884	11,600	40,914	6,758	66,079
Average number of beneficiaries for the accounting period	7,594	2,586	28,561	106,404	15,846	160,991
Beneficiaries per member	1.54	1.37	2.46	2.60	2.34	2.44
Average age per beneficiary	63.93	65.93	26.49	28.15	27.05	29.93
Pensioner ratio (beneficiaries >65 years old)	59.87%	63.76%	1.81%	3.20%	1.10%	6.21%
Average risk contribution per member per month	R5,272.88	R6,323.66	R2,347.63	R3,249.00	R1,932.47	R3,194.57
Average risk contribution per beneficiary per month	R3,418.27	R4,606.99	R953.48	R1,249.29	R824.17	R1,311.20
Average relevant healthcare expenditure per member per month	R4,937.71	R5,793.17	R1,739.84	R2,592.47	R1,511.87	R2,598.26
Average relevant healthcare expenditure per beneficiary per month	R3,200.99	R4,220.51	R706.63	R996.85	R644.79	R1,066.45
Administration fee per member per month	R285.29	R289.99	R289.99	R288.91	R144.64	R274.11
Average sundry expense per member per month	R29.38	R29.38	R29.23	R29.29	R29.29	R29.29
Average broker fees per member per month	R54.14	R86.52	R76.17	R83.32	R55.78	R77.17
Managed care: management services per member per month	R71.09	R72.26	R72.26	R71.95	R72.07	R71.96
Relevant healthcare expenditure as a percentage of risk contributions	93.6%	91.6%	74.1%	79.8%	78.2%	81.3%
Non-healthcare expenditure as a percentage of risk contributions	7.0%	6.4%	16.8%	12.4%	11.9%	11.9%
Return on investments as a percentage of investments						12.83%
Accumulated funds per member at 31 December						R19,502
Average medical savings account balance per member at 31 December						R3,782

* - LA Comprehensive

3.2 Results of operations

The results of the Scheme are set out in the annual financial statements, and the Trustees believe that no further clarification is required.

3.3 Reserve accounts

There are no reserve accounts.

3.4 Outstanding risk claims

Movements on the outstanding risk claims provisions are clearly set out in the notes to these financial statements. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Scheme.

3.5 Accumulated funds ratio

	2018 R	2017 R
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per statement of financial position	1,565,259,261	1,318,649,214
Accumulated funds per Regulation 29	**1,565,259,261**	**1,318,649,214**
Gross contribution income (Note 10)	**3,632,082,893**	**3,125,823,120**
Accumulated funds ratio per Regulation 29	**43.10%**	**42.19%**

4. INVESTMENT AND FIXED ASSET POLICY

The Board of Trustees continue to invest excess funds in line with the requirements of Annexure B of the Regulations of the Act. There has been no change in the policy during the current year.

5. AUDIT AND RISK COMMITTEE

An Audit and Risk Committee, established in accordance with the provisions of the Act, is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The Committee consists of five members of which two are members of the Board of Trustees. The majority of the members, including the Chairperson, are not officers of the Scheme or its third party administrator. The Committee met four times during 2018.

The Chairperson of the Board, the external auditor and the internal auditors of the Administrator are invited to attend all Audit Committee meetings and have unrestricted access to the Chairperson of the Committee.

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

6. NON-COMPLIANCE MATTERS

6.1. Sustainability of benefit options

In terms of Section 33(2) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound.

At 31 December 2018 two of the Scheme's benefit options did not comply with Section 33(2):

Option	2018 Net healthcare (deficit)/surplus R	2017 Net healthcare (deficit)/surplus R
LA Comprehensive	(4,778,735)	-
LA Core	(36,355,282)	(1,986,772)

The Board of Trustees addresses the sustainability of all Options during their annual strategic conference and subsequent budgetary process. Fair consideration was given to the affordability of the benefits in these Options for registered beneficiaries, by taking into account investment income.

6.2. Contributions not received within three days of it becoming due

In terms of Section 26(7) of the Act, all contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due.

There were instances, during the year, where the Scheme received contributions after three days of becoming due, however, there are no contracts in place agreeing to this arrangement.

The procedures that the Scheme follows regarding these contributions are set out in Note 23 to the financial statements.

6.3. Payment of claims in excess of 30 days from receipt

In terms of Section 59(2) of the Act, a medical scheme shall 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.

There were instances during the year where a total of 89 claims were paid after 30 days of receipt. This was due to operational scheduling of claims payment runs.

Actions will be taken to proactively manage the scheduling of claims payment runs over weekends or public holidays.

7. BOARD OF TRUSTEE, SUB-COMMITTEE/TASK TEAM AND AUDIT COMMITTEE MEETING ATTENDANCE REGISTER

	Board of Trustees						Audit Committee				Strategy conference	Annual General Meeting
Board of Trustees member	21-02-2018	18-04-2018	12-07-2018	16-08-2018	10-10-2018	29-11-2018	18-04-2018	12-07-2018	10-10-2018	28-11-2018	9 to 11-05-2018	15-08-2018
J Allan	✓	✓	✓	✗	✓	✓	-	-	-	-	✓	✗
R Barnard	✓	✓	✓	✓	✓	✓	-	-	-	-	✓	✓
A Bennett	✗	✓	✗	✓	✓	✓	-	-	-	-	✓	✓
GJ Beukman	✓	✓	✓	✓	✓	✓	-	-	-	-	✓	✓
R Bosman	✓	✗	✓	✓	✓	✓	-	-	-	-	✓	✓
C Botes	✓	✓	✓	✓	✗	✓	-	-	-	-	✓	✓
H Botha	✓	✓	✓	✓	✓	✓	-	-	-	-	✗	✓
R de Bruyn	✓	✓	✓	✓	✗	✓	-	-	-	-	✓	✓
R Denge	-	-	✓	✓	✓	✓	✓	-	-	-	-	✓
HA Deysel	✓	✓	✓	✓	✓	✓	-	-	-	-	✓	✓
M Dlamini	-	-	✓	✓	✓	✓	-	-	-	-	-	✓
R Field	✓	✓	✓	✓	✓	✓	-	-	-	-	✓	✓
F Hoffman	✓	✓	✓	✓	✓	✓	-	-	-	-	✓	✓
A Lemmer *	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗
P Louwrens	✓	✓	✓	✓	✓	✓	-	-	-	-	✓	✓
ME Mattheus	✓	✓	-	-	-	-	-	-	-	-	✓	-
MCT Schultz	✓	✓	-	-	-	-	-	-	-	-	✗	-
A Vorster *	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Audit Committee												
G Buchholtz	-	✓	-	✓	✓	✓	✓	✓	✓	✓	-	✓
J Cornell	-	-	-	-	-	-	✓	✓	✓	✓	-	-
F Mohamed	-	-	-	-	-	-	-	-	✓	✓	-	-

* Trustee Audit Committee member