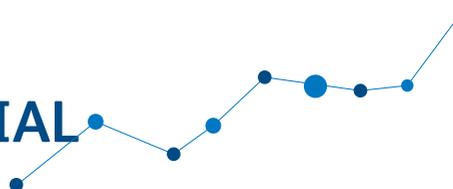


13. ANNUAL FINANCIAL STATEMENTS (AFS)



INDEX

Independent Auditor's Report	125 - 129
Statement of Financial Position	130
Statement of Comprehensive Income	131
Statement of Changes in Equity	132
Statement of Cash Flows	133
Notes to the Annual Financial Statements	134 - 193

Nkosinathi Theledi
Chairperson

Dr SM Hlatshwayo
Deputy Chairperson

Dr G Goolab
Principal Officer

29 April 2019

Independent Auditor's Report

To the Members of Government Employees Medical Scheme

Report on the Financial Statements

Opinion

We have audited the financial statements of Government Employees Medical Scheme (the Scheme), set out on pages 130 to 193, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in members' funds 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 Government Employees Medical Scheme as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

Basis for Opinion

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

Key Audit Matters

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

Outstanding claim provision (IBNR)	
Key Audit Matter	How the matter was addressed in the audit
<p>The outstanding risk claims provision ("IBNR") comprise provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred but not yet reported at the reporting date.</p> <p>The determination of the IBNR requires the Scheme's Trustees to make assumptions in the valuation thereof, which is determined with reference to an estimation of the ultimate cost of settling all claims incurred but not yet reported at the Statement of Financial Position date. The Trustees make use of an independent actuarial specialists for the estimation of the IBNR.</p> <p>The IBNR calculation is based on the following of factors:</p> <ul style="list-style-type: none"> • 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 per claim. <p>Certain of the above mentioned factors require judgement and assumptions to be made by the Schemes Trustees and therefore we identified the valuation of the IBNR as a key audit matter.</p> <p>The IBNR is disclosed in note 10.</p>	<p>In evaluating the valuation of the IBNR, we performed various procedures including the following:</p> <ul style="list-style-type: none"> • Testing the Scheme's controls relating to the preparation of the IBNR calculation; • Testing the integrity of the information used in the calculation of the IBNR by performing substantive procedures; • With the assistance of our internal actuarial specialists we performed an independent calculation of the estimate of the provision using historical claims data and trends, and using this estimate as a basis of assessing the reasonableness of the trustee's estimate of the provision; • Performing a retrospective review of the IBNR raised in the 2017 financial year based on actual claims paid in 2018 to verify the assumptions applied to determine the IBNR are reasonable; • Performing tests of detail on the current year IBNR including testing actual claims experienced subsequent to year end and to as close as possible to audit completion date; and • Assessing the presentation and disclosure in respect of the IBNR and considered whether the disclosures reflected the risks inherent in the accounting for the IBNR. <p>The assumptions applied in the IBNR are appropriate and we are satisfied that the movement of the IBNR in the Statement of Comprehensive Income is appropriate.</p> <p>The related disclosure of the IBNR and assumptions are appropriate.</p>

Other Information

The Scheme's trustees are responsible for the other information. The other information comprises of the Report of Board of Trustees, the Statement of responsibilities of the Board of Trustees and the Statement of corporate governance by the Board of Trustees. The other information does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of the Scheme's Trustees for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional 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 in relation 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

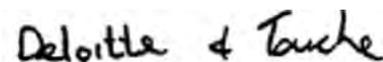
Non-compliance with the Medical Schemes Act of South Africa

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 Deloitte has been the auditor of Government Employees Medical Scheme for 3 years.

The engagement partner, Dinesh Munu, has been responsible for Government Employees Medical Scheme's audit for 3 years.



Deloitte & Touche
Registered Auditor

Per: Dinesh Munu
Partner
29 April 2019

Statement of Financial Position

as at 31 December 2018

	Notes	2018 R '000	2017 R '000
ASSETS			
NonCurrent Assets			
Property & Equipment	3	255,407	97,906
Intangible assets	4	26,697	55,344
Financial assets at fair value through profit or loss	5	2,126,402	571,230
		2,408,506	724,480
Current Assets			
Financial assets at fair value through profit or loss	5	6,887,753	1,905,393
Trade and other receivables	6	375,074	405,117
Cash and cash equivalents	7	2,435,201	5,488,609
		9,698,028	7,799,119
Total Assets		12,106,534	8,523,599
FUNDS AND LIABILITIES			
MEMBERS' FUNDS			
Accumulated funds		9,475,894	5,446,276
LIABILITIES			
Current Liabilities			
Personal medical savings account liability	8	862,691	759,387
Trade and other payables	9	521,704	1,193,272
Outstanding risk claims provision	10	1,245,080	1,123,600
Lease escalation reserve		1,165	1,064
		2,630,640	3,077,323
Member funds and Liabilities		12,106,534	8,523,599

Statement of Comprehensive Income

	Notes	2018 R '000	2017 R '000
Risk contribution income	12	37,354,261	34,703,985
Relevant healthcare expenditure		(32,002,171)	(29,844,481)
Risk claims incurred	13	(31,238,721)	(29,134,469)
Accredited managed healthcare services	14	(763,450)	(710,012)
		5,352,090	4,859,504
Gross healthcare result			
Administration expenditure	15	(1,680,189)	(1,782,952)
Marketing services		(124,669)	(121,718)
Impairment losses on healthcare receivables	17	(86,691)	(77,104)
		3,460,541	2,877,730
Net healthcare result			
Investment income			
Dividends received		32,215	8,101
Interest received on financial assets at fair value through profit / (loss)		497,413	88,851
Net realised gain on financial assets at fair value through profit / (loss)		(19,616)	13,306
Net unrealised gain on financial assets at fair value through profit / (loss)		(60,488)	19,392
Interest received on cash and cash equivalents		100,141	210,409
Interest received on Personal medical savings account monies invested		-	48,177
		36,691	58,769
Other income			
Sundry income		36,691	58,769
Other expenses			
Investment management fees		(17,279)	(6,357)
Interest allocated to members' personal medical savings accounts monies		-	(48,177)
		4,029,618	3,270,201
Total comprehensive surplus for the year		4,029,618	3,270,201

Statement of Changes in Equity

	Accumulated funds R '000	Member funds R '000
Balance at January 1, 2017	2,176,075	2,176,075
Total comprehensive surplus for the year	3,270,201	3,270,201
Balance at January 1, 2018	5,446,276	5,446,276
Total comprehensive surplus for the year	4,029,618	4,029,618
Balance at December 31, 2018	9,475,894	9,475,894

Statement of Cash Flows

	Notes	2018 R '000	2017 R '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from members		38,330,806	35,373,812
Cash paid to suppliers, members and employees		(35,608,033)	(32,405,293)
Cash generated from operations	21	2,722,773	2,968,519
Net cash inflow from operating activities		2,722,773	2,968,519
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property & equipment	3	(164,600)	(91,527)
Sale of property & equipment	3	90	-
Purchase of other intangible assets	4	-	(28,195)
Purchase of financial assets		(6,161,336)	(1,455,343)
Investment income		549,665	388,236
Interest received on cash and cash equivalents		100,141	210,409
Income earned on financial assets at fair value through profit or loss		449,524	129,650
Interest received on Personal medical savings account monies invested		-	48,177
Interest allocated to members' personal medical savings account monies		-	(48,177)
Net cash outflow from investing activities		(5,776,181)	(1,235,006)
Total cash movement for the year		(3,053,408)	1,733,513
Cash at the beginning of the year		5,488,609	3,755,096
Total cash at end of the year	7	2,435,201	5,488,609

Notes to the Annual Financial Statements

1. Significant accounting policies

The principle accounting policies applied in the preparation of the financial statements are set out below. The policies are consistent with those of the prior year. Refer to note 2 for the new standards and interpretations.

1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act no. 131 of 1998, as amended (the Act). In addition the Statement of Comprehensive Income is prepared in accordance with Circulars 41 of 2012 and 56 of 2015 of the Council for Medical Schemes that sets out their interpretation of IFRS as it relates to the Statement of Comprehensive Income for Medical Schemes in South Africa.

1.2 Basis of preparation

The annual financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these annual financial statements.

These annual financial statements comply with the requirements of the 2018 SAICA Medical Scheme Accounting Guide as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The annual financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Rands, which is the Scheme's functional currency.

These accounting policies are consistent with the previous period.

1.3 Property & Equipment

Property and Equipment is measured at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged on the straight line basis over the estimated useful lives of assets after taking into consideration an asset's residual value. Land will be carried at cost and not depreciated.

The useful lives of items of property & equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Infinite Useful Life
Buildings	Straight line	20 years
Furniture and fixtures	Straight line	5 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
Computer equipment and software	Straight line	3 years
Leasehold improvements	Straight line	Over the unexpired period of the applicable lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

The residual value, depreciation method and the estimated useful life of each asset is reviewed at the end of each reporting period and adjusted where appropriate. The effects of any changes in estimates are accounted for on a prospective basis.

The Scheme capitalises leasehold improvements, as specified in the lease contracts, and these improvements are depreciated.

Repairs and maintenance, which neither materially add to the value of assets nor appreciably prolong their useful lives, are recognised in surplus or deficit. Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Scheme and the cost of the item can be measured reliably. Costs directly attributed to the acquisition, development and installation of software are capitalised.

An item of asset is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of asset, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in surplus or deficit when the item is derecognised.

1.4 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the scheme; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Software	3 years

1.5 Financial instruments

Classification

The Scheme classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were acquired and takes place at initial recognition. Classification is reassessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Initial recognition and measurement

Financial instruments are recognised initially when the Scheme becomes a party to the contractual provisions of the instruments.

The Scheme classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through profit or loss are recognised in the Statement of Comprehensive Income.

Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Dividend income is recognised in profit or loss as part of other income when the scheme's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the scheme has transferred substantially all risks and rewards of ownership.

Financial instruments designated as at fair value through profit or loss

The Scheme classifies a financial asset at fair value through profit or loss when any of the following conditions are met:

- The asset is acquired principally for the purpose of selling in the near term.
- It is part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent pattern of short-term profit.
- Upon initial recognition the Scheme designated the asset as at fair value through profit or loss.

A group of financial assets is designated as at fair value through profit or loss if it is managed and its performance is evaluated on a fair value basis, in accordance with the Scheme's documented risk management strategy, and information about the group of assets is provided internally on that basis to the Scheme's key management personnel.

The fair value of the financial instruments traded in an active market is determined by using quoted market prices or dealer quotes. The fair value of financial instruments not traded in an active market is determined by using valuation techniques that maximise the use of observable market data and rely as little as possible on entity specific estimates.

Gains or losses arising from subsequent changes in fair value, including any interest or dividend income, are recognised under Investment Income in the Statement of Comprehensive Income within the period in which they arise.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will

enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Interest income is recognised by applying the effective interest method, except for short term receivables when the recognition of interest would be considered immaterial. In line with the Scheme Rules, no interest is charged on overdue receivable balances.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise deposits held on call with banks, cash on hand and other short term liquid investments. These deposits are readily convertible, to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value. Cash and cash equivalents are classified as loans and receivables.

Financial liabilities measured at amortised cost

Financial liabilities are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Offset

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Scheme has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. No offsetting is currently applied in the financial statements.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the scheme has the positive intention and ability to hold to maturity are classified as held to maturity.

1.6 Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1.7 Insurance contracts

Contracts under which the Scheme accepts significant insurance risk from another party (the member or other beneficiaries) by agreeing to compensate the member or other beneficiaries if a specified uncertain future event (the insured event, i.e. occurrence of a medical expense) adversely affects the member or their dependents are classified as insurance contracts. In terms of these contracts the Scheme is obligated to compensate its members for the healthcare expenses they have incurred.

1.8 Risk claims incurred

Risk claims incurred comprise the total estimated cost of all claims (including claim handling costs) arising from healthcare events that have occurred in the year and for which the Scheme is responsible in terms of its registered rules, whether or not reported by the end of the year.

Net risk claims incurred comprise of the following:

- Claims submitted and accrued for services rendered during the year, net of discounts received, recoveries from members for co-payments and personal medical savings accounts;
- Movements in the outstanding risk claims provision.

1.9 Impairment of assets

The scheme assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the scheme estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the scheme also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.10 Liabilities and related assets under liability adequacy test

The liability for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of any related assets. Where a shortfall is identified, an additional provision is made and the Scheme recognises the deficit in profit or loss for the year.

1.11 Outstanding risk claims provision

Outstanding risk claims comprise provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred by not yet reported at the reporting date. Outstanding risk claims are determined as accurately as possible on the basis of a number of factors, which includes previous experience in claims patterns, claims settlement patterns, changes in the number of members according to gender and age, trends in claims frequency, changes in the claims processing cycle and variations in the nature and average cost incurred per claim.

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

A standard operating procedure governing the calculation of the provision as agreed with the Scheme is followed by the Scheme's actuaries to ensure consistency in the application and interpretation of results.

1.12 Risk Contribution Income

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

1.13 Employee benefits

Short term employee benefits

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

Post-employment benefits

Obligations for contributions to post-employment benefits to defined contribution plans are measured on an undiscounted basis and are expensed as the relevant service is provided.

1.14 Provisions and contingencies

Provisions are recognised when:

- the Scheme has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Provisions are not recognised for future operating losses.

The expected future cash flows are discounted and reflects current market assessments of the time value of money and the risks specific to the liability.

The unwinding of the discount is recognised as a finance cost.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account risks and uncertainties surrounding the obligation.

1.15 Accredited managed healthcare services

These expenses represent expenditure and amounts paid or payable to accredited managed care organisations contracted by the Scheme for management of the utilisation costs and quality of healthcare services supplied to the Scheme and its members. These fees are expensed as incurred. The services provided by these organisations include hospital pre-authorisation, disease management programmes, optical and dental managed care services and pharmaceutical benefit and network management.

1.16 Investment Income

The Scheme's investment income includes:

- Dividends on investments;
- The net realised gains or losses on financial assets at fair value through profit or loss;
- The net unrealised gains or losses on financial assets at fair value through profit or loss; and
- The net interest on investments and cash and cash equivalents.

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

1.17 Unclaimed benefits

Unclaimed benefits are written back to income after a period of three years. Unclaimed benefits consist of member credits and unidentified deposits in line with the Scheme's debt management policy.

1.18 Impairment losses

Non-derivative financial assets

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) that can be estimated reliably had an impact on the estimated future cash flows of that asset.

Financial assets measured at amortised cost: Loans and receivables

The Scheme considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific and collective asset level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Scheme uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised as an expense.

The recoverable amount of other assets is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

1.19 Allocation of revenue and expenditure to benefit options

Revenue and expenditure is allocated to benefit options on a direct basis where this is determinable. Where revenue and expenditure is not directly attributable to a specific benefit option, the revenue or expense is allocated on the basis of the benefit option's membership proportionate to the Scheme's overall membership base. Investment income and investment management fees are allocated on the basis of the benefit option's contribution income proportionate to that of the overall Scheme.

The following items are directly allocated to benefit options:

- Risk contributions;
- Risk claims incurred;
- Savings interest.

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

- Other administration expenditure;
- Other income
- Other expenditure;
- Managed care services; and
- Administration fees.

1.20 Road Accident Fund (RAF) Recoveries

Amounts received from the RAF are not recognised in profit or loss and recognised as accounts payable. These amounts are refunded to members.

1.21 Relevant healthcare expenditure

Relevant healthcare expenditure consists of net claims incurred and managed care services.

1.22 Personal Medical Savings Account

The personal medical savings account, which is managed by the Scheme on behalf of its members, represents savings contributions (which are a deposit component of the insurance contracts), net of any savings claims paid on behalf of members, in terms of the Scheme's registered rules.

The deposit component of the insurance contracts has been unbundled, since the Scheme can measure the deposit component separately. The deposit component is recognised in accordance with IAS 39 and is measured at fair value through profit or loss and subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period. The insurance component is recognised in accordance with IFRS 4, Insurance Contracts.

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

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

2. NEW STANDARDS AND INTERPRETATIONS

2.1 Standards and interpretations not yet effective

The Scheme has adopted the following standards and interpretations, which have been published and are mandatory for the accounting periods beginning on or after 1 January, 2018 or later periods:

IFRS 17 Insurance Contracts

IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS.

IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty relating to insurance contracts.

The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims.

Insurance contracts are required to be measured based only on the obligations created by the contracts.

An entity will be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums.

This standard replaces IFRS 4 – Insurance contracts.

The effective date of the standard is for years beginning on or after January 1, 2022.

The scheme will adopt the standard for the first time in the 2022 annual financial statements.

IFRS 16 Leases

IFRS 16 is a new standard which replaces IAS 17 Leases and introduces a single lease accounting model.

The new standard requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying assets is of low value. IFRS 16 also contains expanded disclosure requirements for lessees.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019 and the Scheme will adopt the standard in the first annual period beginning on or after the mandatory effective date.

At the adoption of the standard, the scheme will opt for a modified approach whereby the lease liability will be equal to the leased assets which will result in a nil effect to retained earnings as at the beginning of 2019.

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Scheme will adopt the standard in the first annual period beginning on or after the mandatory effective date. The impact of the adoption of IFRS 9 has not yet been estimated.

An amendments to IFRS 4 was issued which provides a temporary exemption that permits insurers to apply IAS 39 Financial Instruments: Recognition and Measurement rather IFRS9 Financial Instruments for annual periods beginning before 1 January 2022.

Management has assessed that the Scheme meets the criteria as stated in Amendments to IFRS 4 and therefore opted to utilise temporary exemption to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2022.

3. PROPERTY & EQUIPMENT

R '000	2018			2017		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Land	22,819	-	22,819	22,819	-	22,819
Buildings	186,788	(1,090)	185,698	-	-	-
Furniture and fixtures	8,336	(2,025)	6,311	3,751	(2,117)	1,634
Motor vehicles	8,808	(4,560)	4,248	9,102	(3,282)	5,820
Office equipment	19,701	(2,409)	17,292	2,896	(1,700)	1,196
IT equipment	25,096	(8,151)	16,945	10,075	(5,584)	4,491
Leasehold improvements	1,157	(366)	791	3,406	(3,248)	158
Kitchen Equipment	1,303	-	1,303	-	-	-
Capital Work in progress	-	-	-	61,788	-	61,788
Total	274,008	(18,601)	255,407	113,837	(15,931)	97,906
Reconciliation of property & equipment 2018	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
R '000						
Land	22,819	-	-	-	-	22,819
Buildings	-	125,000	-	61,788	(1,090)	185,698
Furniture and fixtures	1,634	5,403	(121)	-	(605)	6,311
Motor vehicles	5,820	-	(40)	-	(1,532)	4,248
Office equipment	1,196	16,805	-	-	(709)	17,292
IT equipment	4,491	15,018	-	-	(2,564)	16,945
Leasehold improvements	158	1,071	(42)	-	(396)	791
Kitchen Equipment	-	1,303	-	(61,788)	-	1,303
Capital Work in progress	61,788	-	-	-	-	-
Total	97,906	164,600	(203)	-	(6,896)	255,407

Reconciliation of property & equipment 2017
R '000

	Opening balance	Additions	Disposals	Depreciation	Total
Land	-	22,819	-	-	22,819
Furniture and fixtures	1,546	568	-	(480)	1,634
Motor vehicles	5,382	1,989	-	(1,551)	5,820
Office equipment	946	561	(2)	(309)	1,196
IT equipment	3,758	3,674	(164)	(2,777)	4,491
Leasehold improvements	311	128	-	(281)	158
Capital Work in progress	-	61,788	-	-	61,788
	11,943	91,527	(166)	(5,398)	97,906

4. INTANGIBLE ASSETS
R '000

	2018		2017			
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	81,894	(55,197)	26,697	80,424	(28,218)	52,206
Intangible assets under development	-	-	-	3,138	-	3,138
Total	81,894	(55,197)	26,697	83,562	(28,218)	55,344

Reconciliation of intangible assets 2018
R '000

	Opening balance	Expensed to profit and loss	Transfers	Amortisation	Total
Computer software	52,206	-	1,470	(26,979)	26,697
Intangible assets under development	3,138	(1,668)	(1,470)	-	-
	55,344	(1,668)	-	(26,979)	26,697

Reconciliation of intangible assets 2017
R '000

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	35,774	25,057	12,245	(20,870)	52,206
Intangible assets under development	12,245	3,138	(12,245)	-	3,138
	48,019	28,195	-	(20,870)	55,344

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 R '000	2017 R '000
Opening balance	2,476,623	861,524
Additions to investments	6,146,877	1,455,343
Realised gains and interest	536,081	150,959
Unrealised gains/ (losses)	(60,488)	20,619
Investment transaction fees*	(378)	(211)
Fair value of investments at year end	9,098,715	2,488,234
Less Accrued interest **	(84,560)	(11,611)
Closing balance of investments	9,014,155	2,476,623

GEMS currently holds investments at fair value through profit or loss under IAS 39 and thus will continue to recognise investments at fair value through profit or loss when the Scheme adopt IFRS 9.

GEMS holds no debt instruments that will need to be measured at amortised cost.

The adoption of IFRS 9 will not have a financial impact on the values of the scheme investments presented.

Noncurrent assets

Designated as at Fair value through profit (loss)	2,126,402	571,230
---	-----------	---------

Current assets

Designated as at Fair value through profit (loss)	6,887,753	1,905,393
	9,014,155	2,476,623

* Investment transaction fees are deducted directly from investment portfolio balances and are included as part of investment management fees.

** Accrued interest is not capitalised and is included with Accrued Interest on note 6, Trade and other receivables.

Financial assets at fair value through profit or loss consist of money market instruments, bonds and equities. Financial assets at fair value through profit or loss are categorised as Levels 1 and 2. Refer note 26.

6. TRADE AND OTHER RECEIVABLES

	2018 R '000	2017 R '000
Insurance receivables		
Contributions outstanding	275,822	291,867
Receivables from members and providers	123,300	129,028
Personal medical savings account advances (note 8)	1,186	1,771
Receivables balance before impairment	400,308	422,666
Less: Balance of allowance for impairment at 31 December	(138,085)	(87,579)
Balance as at 1 January	87,578	53,967
Amount recognised in the Statement of Comprehensive Income	86,691	77,104
Amounts utilised during the period	(36,184)	(43,492)
Total insurance receivables	262,223	335,087
Financial receivables		
Accrued interest	84,935	46,441
Sundry accounts receivable	27,916	23,589
Total financial receivables	112,851	70,030
Total trade and other receivables	375,074	405,117

Trade and other receivables disclosed above are classified as loans and receivables and are measured at amortised cost. The carrying amounts of receivables approximate their fair value due to the short term maturities of these assets. No interest is charged on overdue balances in line with Scheme Rules.

The Scheme has recognised an allowance for impairment of 100% against all receivables from deceased members and categories of receivables outstanding for longer than 120 days based on historical experience.

For an analysis of the ageing of receivables refer to note 26.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the scheme to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The current provision policy provides for all receivables 120 days and older and thus the expectation is that the implementation of IFRS 9 will not have a material impact on the numbers reported by the Scheme. The impact of IFRS 9 on the financial reporting of the Scheme will be established during 2019.

7. CASH AND CASH EQUIVALENTS

	2018 R '000	2017 R '000
Cash and cash equivalents consist of:		
Call accounts	1,709,104	3,097,980
Current accounts	726,097	480,629
Fixed deposit	-	1,910,000
Total cash and cash equivalents	2,435,201	5,488,609

The carrying amounts of cash and cash equivalents approximate their fair values due to the short term maturities of these assets. Fair value is determined to be equal to the carrying value of the deposit.

For an analysis of the average interest rates and maturity refer to note 26.

8. PERSONAL MEDICAL SAVINGS ACCOUNT

	2018 R '000	2017 R '000
Gross balance of personal medical savings account at beginning of the year	759,387	656,318
Less: Advances on personal medical savings account at beginning of year	(1,771)	(1,333)
Balance of personal medical savings account at the beginning of the year	757,616	654,985
Savings account contributions received (note 12)	954,187	792,547
Transfers from other schemes in terms of Regulation 10(4)	134	66
Interest income earned on monies invested	-	48,177
Refunds on death or resignation in terms of Regulation 10(5)	(86,832)	(75,653)
Claw backs from members	5,520	5,776
Claims paid on behalf of members (note 13)	(769,120)	(668,282)
Personal medical savings account advances (note 6)	1,186	1,771
Balances due to members on personal medical savings account end of the year	862,691	759,387

In accordance with the Rules of the Scheme, the savings plan is underwritten by the Scheme.

The personal medical savings account liability contains a demand feature that any credit balance on the savings account will be transferred to the member in terms of the Medical Schemes Act and

the Scheme Rules when a member registers on another benefit option or medical scheme which does not have a savings account or when a member resigns from the Scheme.

As at year end the carrying amount of the members' personal medical savings accounts were deemed to be equal to its fair value, which is the amount payable on demand. The amounts were not discounted due to the demand feature.

Advances on personal medical savings accounts are funded by the Scheme and are included in trade and other receivables (refer note 6). The Scheme does not charge interest on advances on personal medical savings accounts.

The effect of discounting is not material.

9. TRADE AND OTHER PAYABLES

	2018 R '000	2017 R '000
Insurance liabilities		
Claims reported not yet paid		
Balance at the beginning of the year	809,553	845,515
Claims incurred	31,238,721	29,134,469
Claims settled	(31,913,407)	(29,170,427)
Total liabilities arising from insurance contracts	134,867	809,553
Financial liabilities		
Trade payables	88,102	99,591
Administration fees payable	161,260	150,924
Consulting fees payable	21,236	20,813
Accredited managed healthcare fees due	64,605	55,456
Marketing services	10,142	7,950
Sundry payables and accrued expenses	38,624	44,368
Refunds due to members	1,310	3,909
Unallocated deposits	1,558	708
Total arising from financial liabilities	386,837	383,719
Total trade and other payables	521,704	1,193,272

The carrying amounts of trade payables approximate their fair values due to the short term maturities of these liabilities. Fair value is equal to the face value of the amount invoiced by the creditor. The average payment terms for trade payables are 20.26 days (2017: 25.4 days).

The Scheme has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms and no interest is incurred on outstanding balances.

10. OUTSTANDING RISK CLAIMS PROVISION

	2018 R '000	2017 R '000
Outstanding risk claims provision		
Not covered by risk transfer arrangements	1,245,080	1,123,600

Reconciliation of provisions 2018	Opening balance	Current year increase in provision	Payments in respect of prior year	Total
Outstanding risk claims provision	1,123,600	1,333,882	(1,212,402)	1,245,080

Reconciliation of provisions 2017	Opening balance	Current year increase in provision	Payments in respect of prior year	Total
Outstanding risk claims provision	960,000	1,181,100	(1,017,500)	1,123,600

Analysis of outstanding risk claims provision 2018	Estimated gross claims	Balance at the end of the year
Not covered by risk transfer arrangements	1,245,080	1,245,080

Analysis of outstanding risk claims provision 2017	Estimated gross claims	Balance at the end of the year
Not covered by risk transfer arrangements	1,123,600	1,123,600

This provision, known as the outstanding risk claims provision, is determined by way of statistically sound analyses of a number of factors, which include previous experience in claim patterns, claim settlement patterns, changes in the number of members according to gender and age, trends in claim frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim. The provision is net of estimated recoveries from members for co-payments.

The actuaries followed a standard operating procedure governing the calculation of the provision as agreed with the Scheme to ensure consistency in application and interpretation of results. The Scheme does not discount its outstanding risk claims provision since the effect of the time value of money is not considered material. The adequacy of the provision is assessed on a monthly basis, through reviews of past experience and consideration of changes in fundamentals such as claims

processing and composition. Furthermore, the Scheme has standardised the provision calculation methodology and any deviation to this is adequately supported. An actuarial peer review of the provision calculation is in place and the Scheme considers the outstanding risk claims provision of R1.245 billion (2017: R1.123 billion) to be adequate. The estimation of the provision gives an indication of whether the Scheme would have adequate assets to cover the potential liability from the Scheme's insurance contracts, as required by accounting policy. The Scheme has sufficient assets to cover any potential liability from insurance contracts as the cash and cash equivalents at year end cover the outstanding risk claims provision more than eight times.

Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from managed care organisations and historical evidence of the quantum of similar claims. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate cost of the loss is difficult to estimate. The provision estimation also accommodates the processing and adjudication of different categories of claims (i.e. in hospital, chronic and above threshold benefits). This is caused by differences in the underlying insurance contract, claim complexity, the volume of claims, the individual severity of claims, the determination of the occurrence date of a claim, and reporting lags.

Members must submit all claims for payment within four months of seeking medical treatment (i.e. the date of service). The cost of outstanding claims at the reporting date is estimated with reference to the actual claims submitted within the first three months after the reporting date that relates to the period before the reporting date. The claims to be submitted in the fourth month, relating to the reporting period, are then extrapolated using the bootstrapping, chain ladder, expected minus actual and the Bornheutter Ferguson method.

The Bornheutter Ferguson method was the preferred actuarial method for estimating the provision for the year under review and the prior year. This method of calculating the outstanding risk claims provision is in line with the standard operating procedure (SOP) for the Scheme. Refer to note 22 for actuarial assumptions made.

11. FINANCIAL ASSETS AND LIABILITY BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

2018 R '000	Fair value through profit or loss held for trading	Loans and receivables	Financial liabilities at amortised cost	Total
Financial assets at fair value through profit or loss	9,014,155	-	-	9,014,155
Trade and other receivables	-	375,074	-	375,074
Cash and cash equivalents	-	2,435,201	-	2,435,201
Personal Medical savings liability account	-	-	(862,691)	(862,691)
Trade and other payables	-	-	(524,245)	(524,245)
	9,014,155	2,810,275	(1,386,936)	10,437,494
2017 R '000	Fair value through profit or loss held for trading	Loans and receivables	Financial liabilities at amortised cost	Total
Financial assets at fair value through profit or loss	2,476,623	-	-	2,476,623
Trade and other receivables	-	405,117	-	405,117
Cash and cash equivalents	-	5,488,609	-	5,488,609
Personal Medical aid savings account trust liability	-	-	(759,387)	(759,387)
Trade and other payables	-	-	(1,193,272)	(1,193,272)
	2,476,623	5,893,726	(1,952,659)	6,417,690

12. RISK CONTRIBUTION INCOME

	2018 R '000	2017 R '000
Gross contributions per registered rules	38,308,448	35,496,532
Less: Personal medical savings account contributions received *	(954,187)	(792,547)
Risk contribution income per statement of comprehensive income	37,354,261	34,703,985

* The savings contributions are received by the Scheme in terms of Regulation 10(1) and the Scheme's registered Rules and held on behalf of its members. Refer to note 8 on how the monies were utilised.

13. RISK CLAIMS INCURRED

Claims incurred	2018 R '000	2017 R '000
Current year claims per registered rules	30,767,666	28,684,825
Outstanding risk claims provision as at 31 December	1,245,080	1,123,600
Less:		
Claims paid from personal medical savings accounts**	(769,120)	(668,282)
Discount received	(4,905)	(5,674)
Total net claims incurred	31,238,721	29,134,469

The claims ratio is calculated as claims incurred expressed as a percentage of risk contributions received. The Scheme recorded a claims ratio for the current financial year of 86% (2017: 86%).

** Claims are paid on behalf of the members from their personal medical savings accounts in terms of Regulation 10(3) and the Scheme's registered benefits. Refer to note 8 for a breakdown of the movement in these balances.

14. ACCREDITED MANAGED HEALTHCARE SERVICES

	2018 R '000	2017 R '000
Chronic medicine management services	166,788	156,100
Dental managed care	60,038	55,974
HIV management	42,612	39,850
Managed care services	385,264	356,391
Pharmaceutical benefit management	108,748	101,697
	763,450	710,012

Fees are contractually determined per member per month, reducing any upfront capital outlays and reducing as membership grows resulting in improved economies of scale.

Refer to note 24 for more information on managed care agreements.

15. ADMINISTRATION EXPENDITURE

	2018 R '000	2017 R '000
Actuarial fees	10,031	6,814
Administration fees	1,091,680	1,146,025
Advertising and marketing	21,692	37,824
Auditors remuneration statutory fees	3,458	2,701
Bank charges	3,011	3,157
Benefit management services (Unaccredited managed care providers)	130,999	132,221
Board and Independent Committee fees	6,391	7,686
Conferences and workshops	3,317	3,467
Consulting fees	100,403	144,638
Depreciation	33,875	26,268
Employee costs	185,861	166,352
Legal expenses	7,257	17,370
Loss on disposal of assets	113	166
Motor vehicle expenses	1,273	1,166
Office supplies*	9,610	8,086
Other expenses	2,542	10,268
Practice Code Numbering System (PCNS) fees and CMS levies	30,073	28,424
Principal Officer's fees	4,656	4,258
Rental paid	18,322	16,897
Telephone and fax	958	861
Travel and accommodation	9,925	14,999
Trustees' and Independent Committee members' training	203	121
Trustees' and Independent Committee members' travel and accommodation	1,398	1,621
Water and electricity	3,141	1,562
	1,680,189	1,782,952

*The increase in office supplies is due to an increase in repairs and maintenance and assets less than R5 000, both these are due to the move to the new building and vacating the old building.

16. TRUSTEES' AND INDEPENDENT COMMITTEE MEMBERS' REMUNERATION

Board of Trustees' remuneration

2018	Term End	Attendance Fees R '000	Travel And Accommodation R '000	Reimbursements And Allowances R '000	Training R '000	Total R '000
Ms NH Mkhumane	2018-02-05	11	-	2	-	13
Ms N Ntinsinde	2018-02-05	35	14	2	1	52
Mr BE De Vries	2019-07-29	557	324	16	28	925
Mr CJ Booyens	2019-07-29	528	39	29	11	607
DR C Moloko	2022-10-28	472	46	9	21	548
Dr. SM Hlatshwayo (Deputy Chairperson)	2024-02-19	594	72	7	21	694
Mr D De Villiers (Deceased)	2018-09-19	416	22	-	11	449
Mr NL Theledi (Chairperson)	2019-09-26	649	126	5	11	791
Dr IJ Van Zyl	2020-07-29	594	216	24	18	852
Dr JA Breed	2020-07-29	518	59	21	12	610
Dr CM Mini (Resigned)	2017-12-31	2	-	3	-	5
Mr JS Roux	2020-07-29	454	275	11	14	754
Mr M Erasmus Phophi	2023-09-25	284	36	-	12	332
Mr RA Manoko	2024-02-19	489	64	20	33	606
Mr MR Nkabinde (Removed by the Board)	2018-09-21	28	-	-	10	38
		5,631	1,293	149	203	7,276

2017	Term End	Attendance Fees R '000	Travel And Accommodation R '000	Reimbursements And Allowances R '000	Training R '000	Total R '000
Ms NH Mkhumane:(Deputy Chairperson)	2018-02-05	535	70	3	12	620
Mr BE De Vries	2019-07-29	443	325	16	16	800
Mr CJ Booyens	2019-07-29	641	91	24	3	759
Dr C Moloko	2022-10-28	448	74	9	16	547
Ms N Ntinsinde: (Chairperson)	2018-02-05	924	91	12	12	1,039
Mr D De Villiers (Deceased)	2019-07-29	711	60	1	7	779
Mr NL Theledi	2019-09-26	478	74	7	7	566
Dr IJ Van Zyl	2020-07-29	502	111	32	16	661
Dr JA Breed	2020-07-29	523	122	27	1	673
Dr CM Mini	2020-07-29	845	73	27	7	952
Mr JS Roux	2020-07-29	658	367	15	9	1,049
Mr M Erasmus Phophi	2023-09-25	252	18	3	10	283
		6,960	1,476	176	116	8,728

The Trustee remuneration should be seen in relation to the attendance of meetings as reported in the Board of Trustees report as well as the term of office applicable to each trustee. It is worth noting that not all Trustees reside in Gauteng and therefore travel and accommodation costs are incurred.

The total of the Trustees and Independent Committee fees disclosed in this note is included in the Board and Committee fee line items as disclosed in Administration Expenditure (refer note 15).

Independent Committee members' remuneration

2018	Term End	Attendance Fees R '000	Travel And Accommodation R '000	Reimbursements And Allowances R '000	Total R '000
	2019-03-31	34	-	1	35
Ms M David	2019-03-31	46	30	-	76
Ms P Ford	2018-03-03	120	7	-	127
Ms F Msiza	2018-09-14	47	46	-	93
Ms RHS Eksteen (Resigned)	2019-02-19	310	22	3	335
Mr J Lesejane	2019-03-31	51	-	-	51
Rev Frank Chikane		608	105	4	717

2017	Term End	Attendance Fees R '000	Travel And Accommodation R '000	Reimbursements And Allowances R '000	Training R '000	Total R '000
Ms M Sukati (Resigned)	2017-12-31	269	48	16	5	338
Ms LR Zondi	2017-07-31	27	-	-	-	27
Ms M David	2019-03-31	35	6	1	-	42
Ms P Ford	2019-03-31	36	22	-	-	58
Ms F Msiza	2019-03-31	66	6	-	-	72
Ms RHS Eksteen	2018-11-01	83	45	-	-	128
Rev Frank Chikane	2020-07-31	18	17	-	-	35
		534	144	17	5	700

Remuneration paid to independent committee members during 2018 was based on a fixed rate per meeting.

17. IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES

	2018 R '000	2017 R '000
Movement in the allowance account for impairment losses	50,507	33,612
Impairment losses recognised directly in income	36,184	43,492
	86,691	77,104

18. INVESTMENT INCOME

Dividend income

From investments in financial assets measured at fair value through profit or loss:

Listed investments Local	32,215	8,101
Interest income		
From investments in financial assets:		
Interest received on financial assets at fair value through profit or loss	497,413	88,851
Net realised gains / (losses) on financial assets at fair value through profit or loss	(19,616)	13,306
Net unrealised gains / (losses) on financial assets at fair value through profit or loss	(60,488)	19,392
Interest received on cash and cash equivalents	100,141	210,409
Personal medical savings account	-	48,177
	549,665	388,236

Interest income is comprised of interest earned from short term fixed deposits, current accounts and money market instruments. This interest is recognised on a yield to maturity basis, taking into account the principal amount outstanding and the effective interest rate over the period to maturity.

19. COMMITMENTS

Operating leases – as lessee (expense)

The future minimum lease payments under a non-cancellable operating lease:

	2018 R '000	2017 R '000
- within one year	6,441	7,202
- in second to fifth year inclusive	7,020	21,585
	13,461	28,787
Lease amounts recognised in profit or loss during the year		
Rental	18,322	16,897

Operating lease payments represent rentals payable by the Scheme for its office properties. Leases are negotiated for an average term of five years and the lease escalation is 8% per annum over the lease period for the rental component and 8% for lease operating costs. No contingent rent is payable.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019 and the Scheme will adopt the standard in the first annual period beginning on or after the mandatory effective date.

20. NET HEALTHCARE RESULT PER BENEFIT OPTION

2018	SAPPHIRE R '000	BERYL R '000	RUBY R '000	EMERALD VALUE R '000	EMERALD R '000	ONYX R '000	TOTAL R '000
Risk contribution income	1,203,839	1,176,591	3,820,986	3,086,099	25,861,792	2,204,955	37,354,261
Relevant healthcare expenditure	(357,437)	(906,567)	(2,465,231)	(2,660,131)	(22,935,656)	(2,677,149)	(32,002,171)
Risk claims incurred	(306,675)	(868,941)	(2,367,628)	(2,599,333)	(22,453,801)	(2,642,341)	(31,238,721)
Managed care services	(50,762)	(37,626)	(97,603)	(60,798)	(481,855)	(34,808)	(763,450)
Gross healthcare result	846,402	270,024	1,355,754	425,968	2,926,136	(472,194)	5,352,090
Administration expenditure	(111,753)	(82,845)	(214,838)	(133,888)	(1,060,294)	(76,571)	(1,680,189)
Marketing services	(8,272)	(6,129)	(15,926)	(9,850)	(78,797)	(5,695)	(124,669)
	726,377	181,050	1,124,990	282,230	1,787,045	(554,460)	3,547,232
Net impairment losses on healthcare receivables	(3,155)	(2,475)	(9,665)	(4,276)	(62,693)	(4,427)	(86,691)
Net healthcare result	723,222	178,575	1,115,325	277,954	1,724,352	(558,887)	3,460,541
Investment income	34,268	25,079	65,841	63,592	337,131	23,754	549,665
Other income	2,552	1,908	4,776	3,361	22,537	1,557	36,691
Investment management fees	(1,177)	(1,202)	(2,249)	(1,582)	(10,590)	(479)	(17,279)
Total comprehensive surplus/(deficit) for the year	758,865	204,360	1,183,693	343,325	2,073,430	(534,055)	4,029,618
Number of members	49,042	36,688	91,792	64,595	432,179	30,886	705,182

2017	SAPPHIRE R '000	BERYL R '000	RUBY R '000	EMERALD VALUE R '000	EMERALD R '000	ONYX R '000	TOTAL R '000
Risk contribution income	1,026,181	903,992	3,170,328	1,946,923	25,406,677	2,249,884	34,703,985
Relevant healthcare expenditure	(323,649)	(687,784)	(2,073,389)	(1,710,295)	(22,271,640)	(2,777,724)	(29,844,481)
Risk claims incurred	(279,605)	(658,013)	(1,990,951)	(1,672,193)	(21,792,821)	(2,740,886)	(29,134,469)
Managed care services*	(44,044)	(29,771)	(82,438)	(38,102)	(478,819)	(36,838)	(710,012)
Gross healthcare result	702,532	216,208	1,096,939	236,628	3,135,037	(527,840)	4,859,504
Administration expenditure	(110,765)	(74,936)	(207,093)	(96,945)	(1,200,962)	(92,251)	(1,782,952)
Marketing services	(7,551)	(5,104)	(14,132)	(6,562)	(82,055)	(6,313)	(121,718)
	584,216	136,168	875,714	133,121	1,852,020	(626,404)	2,954,834
Net impairment losses on healthcare receivables	(3,643)	(2,726)	(10,569)	(3,866)	(48,278)	(8,020)	(77,104)
Net healthcare result	580,573	133,442	865,145	129,255	1,803,742	(634,424)	2,877,730
Investment income	21,186	14,352	39,552	18,782	228,640	17,542	340,059
Personal medical savings account trust monies invested	-	-	(48,177)	-	-	-	48,177
Interest allocated to personal medical savings accounts	-	-	48,177	-	-	-	(48,177)
Other income	3,751	2,571	6,911	3,462	39,121	2,952	58,769
Investment management fees	(408)	(281)	(750)	(379)	(4,220)	(316)	(6,357)
Total comprehensive surplus/ (deficit) for the year	605,102	150,084	910,858	151,120	2,067,283	(614,246)	3,270,201
Number of members	44,508	30,629	81,682	41,317	459,486	34,470	692,092

Revenue and expenditure are allocated to benefit options on a direct basis where this is determinable. Where revenue and expenditure are not directly attributable to a specific benefit option, the revenue or expense is allocated on the basis of the benefit option's membership proportionate to the Scheme's membership base. Investment income is allocated on the basis of the benefit option's contribution income proportionate to that of the overall Scheme.

The Scheme offers its members six different benefit options: Sapphire, Beryl, Ruby, Emerald Value, Emerald and Onyx.

Sapphire and Beryl are the entry level options where cover is provided by designated provider networks. Sapphire was specifically designed to be inexpensive and it achieves this by providing out of hospital care at private facilities and in hospital cover mainly at public facilities. Beryl provides in hospital cover at both public and private facilities.

Ruby offers members a savings account for day-to-day medical expenses as well as a hospital benefit. Savings contributions portion is comprised of 20% of contribution income of the Ruby option.

Emerald Value is a fairly new option which offers benefits through the use of the Gems networks with specific care coordination principles.

Emerald is the traditional option and the majority of the membership population is part of this option.

Onyx is the comprehensive option. Following engagements and approval from the Department of Public Service and Administration (DPSA) and National Treasury (NT) the Scheme migrated the pre-1992 state pensioners from Medihelp to GEMS, effective 1 April 2012. These members were registered on the Onyx option which adversely affected the financial performance of this option during the financial year.

21. CASH GENERATED FROM OPERATIONS

	2018 R '000	2017 R '000
Surplus / Deficit reported:	4,029,618	3,270,201
Adjustments for:		
Depreciation, amortisation and impairment	33,875	26,268
Investment transaction fees	378	211
Loss on disposals of assets	113	166
Development costs expensed	1,668	-
Investment income:		
Cash and cash equivalents	(100,141)	(210,409)
Income earned on financial assets at fair value through profit or loss	(449,524)	(129,650)
Interest earned on monies invested	-	48,177
Personal medical savings account monies invested	-	(48,177)
Other:		
Impairment losses on healthcare receivables	86,691	77,104
Movements in provisions	121,480	163,600
Changes in working capital:		
Trade and other receivables	(433,222)	(303,108)
Trade and other payables	(671,568)	4,712
Personal medical savings account	103,304	69,103
Lease escalation reserve	101	321
	2,722,773	2,968,519

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

In the process of applying the Scheme's accounting policies, management has made no judgements that have a significant effect on the amounts recognised in the financial statements, other than the outstanding risk claims provision, the impairment allowance for trade and other receivables, as explained further in this note.

Impairment of trade and other receivables

Objective evidence of the impairment of trade and other receivables includes the Scheme's past experience of collecting payments, trade and other receivables outstanding for 120 days or more and receivables due from deceased members. Refer to note 1.18 for more detail with regards to the accounting policy for impairment losses.

Outstanding risk claims provision

This provision has been calculated on the standard operating procedure as agreed between the Scheme and its actuaries.

The assumptions that have the greatest effect on the measurement of the outstanding risk claims provision are the expected claims development for the most recent benefit months for the day-to-day, in hospital, acute and chronic benefit categories of claims.

There is some estimation uncertainty that has to be considered in the provision for the estimate of the liability arising from outstanding claims i.e. the cost of healthcare benefits that have occurred before the end of the accounting period but have not been reported to the Scheme by that date.

Sources of unreported claim payments include:

- Unknown and hence unreported claims; and
- closed claims that later become reopened and have additional payments made.

If no or insufficient allowance is made for these claims, the result is that the Scheme is likely to hold insufficient funds aside for paying claims. This in turn impacts the Scheme's cash flow and ability to honour claims.

The Scheme does not discount its outstanding risk claims provision as the effect of the time value of money is not considered material.

The following table illustrates the quantum of uncertainty inherent to the outstanding risk claims provision estimates. As opposed to claims for 2017 that have already been paid, the claims for

2018 estimate to be paid (or reopened) in future payment months are still subject to uncertainty. This quantity forms a useful basis for a sensitivity analysis. The table below illustrates the effect of a 3% increase and decrease in this amount.

	Claims for 2018 services paid from Jan 2019 to March 2019 R '000	2018 claims estimated at the time to be paid after March 2019 R '000	2018 Outstanding risk claims provision R '000	% change in outstanding risk claims provision
Base Scenario	1,028,869	216,110	1,245,060	-
				%
3% increase	1,028,869	222,677	1,251,546	0.52%
3% decrease	1,028,869	209,705	1,238,574	(0.52)%

The same analysis appears below for 31 December 2017 financial year outstanding risk claims provision, where claims paid after March 2018 for 2017 forms the basis for the sensitivity analysis.

Note that the base scenario figures below are actual's, not estimates.

	Claims for 2017 services paid from Jan 2018 to March 2018 R '000	2017 claims estimated at the time to be paid after March 2018 R '000	2017 Outstanding risk claims provision R '000	% change in outstanding risk claims provision
Base Scenario	1,017,500	106,100	1,123,600	-
				%
3% increase	1,017,500	109,300	1,126,800	(0.28)%
3% decrease	1,017,500	102,900	1,120,400	(0.19)%

The Scheme monitors each month's initial outstanding risk claims provision over a four month period as subsequent claims are received. The variances have been monitored to be within a range of 1% to 3% over time.

The Board of Trustees believe 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.

Additional comments are provided in note 10.

23. PROFESSIONAL INDEMNITY AND FIDELITY INSURANCE

In accordance with the Scheme rules, the Scheme has Professional Indemnity and Fidelity insurance to cover the events of fidelity, trustees and officers' errors and omissions and medical scheme reimbursements. On 31 December 2018 the effective cover was R1 billion (2017: R1 billion). The Scheme's insurance contracts are reviewed for adequacy and reinstated annually.

The Scheme took additional cover during the 2018 financial year for Data protection and Cyber liability Cover. This covers any electronically stored digital or digitalised information or media, network interruption cost and cyber terrorism. The effective cover is R50 million.

24. RELATED AND OTHER SIGNIFICANT PARTIES

Related Parties with significant influence over the Scheme

The Minister for Public Service and Administration is responsible for appointing 50% of the Board of Trustees and for determining the medical subsidy policy in the public service and thus has significant influence over the Scheme, but does not control it.

The Scheme engages with the Department of Public Service and Administration (DPSA) who is responsible for implementing and maintaining the medical subsidy policy. The DPSA therefore has significant influence over the Scheme, but does not control it.

Metropolitan Health Corporate (Pty) Ltd (MHC) provides membership and claims management services, operational information and recommendations, through its administration agreement with the Scheme, on which policy decisions are based, and therefore it has significant influence over the Scheme, but does not control it.

Medscheme Holdings (Pty) Ltd provides contribution and debt management Services through its administration agreement with the Scheme from 1 January 2012, on which policy decisions are based, and therefore it has significant influence over the Scheme, but does not control it.

Medscheme Holdings (Pty) Ltd provide managed care information on which benefit design decisions are based and therefore they have significant influence over the Scheme, but do not control it.

Insight Actuaries (Pty) Ltd provides actuarial and consulting services to the Scheme and therefore has significant influence over the Scheme, but do not control it.

The Scheme has multiple other Administration and Managed care providers that it contracts with, but none of these have significant influence over the Scheme or control over the Scheme.

Key management personnel and their close family members

Key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the

Board of Trustees, the Principal Officer and members of the Executive Committee. This disclosure deals with full time personnel that are compensated on a salary basis (Principal Officer and Executive Committee) and part time personnel that are compensated on a fee basis (Board of Trustees). Close family members include family members of the Board of Trustees, Principal Officer and members of the Executive Committee.

Transactions with related parties

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year.

	2018 R '000	2017 R '000
Key management personnel		
Compensation (includes remuneration and other costs)		
Short term benefits	23,052	17,480
Post-employment benefit	1,471	1,154
Bonus	4,715	1,505
	29,238	20,139
Principal Officer	5,820	4,258
Chief Financial Officer	3,756	3,323
Chief Administration Officer (Appointed 01-11-18)	298	954
Chief Communications and Member Affairs Officer (Resigned 30-04-18)	346	699
Chief Governance and Compliance Officer	2,656	2,349
Chief Healthcare Management Officer	2,864	2,335
Chief Information, Communication & Technology Officer	2,443	2,005
Chief Corporate Services Officer	2,751	2,106
Chief Audit Executive	2,302	1,934
Chief Research Officer	1,433	-
Chief Operation Officer	2,520	-
Company Secretary and Legal Counsel	1,708	-
Gross contributions received (*)		
Board of Trustees	448	514
Principal Officer	32	30
Executive Committee	470	364
Claims incurred (*)		
Board of Trustees	449	988
Principal Officer	17	22
Executive Committee	225	162

(*) Gross contributions and claims incurred include contributions and claims incurred by members and their beneficiaries.

Transaction Nature of transactions and terms and conditions thereof

Gross contributions received	This constitutes the contributions paid by the related party as a member of the Scheme in their individual capacity. All contributions were at the same terms as applicable to third parties.
Claims incurred	This constitutes amounts claimed by the related parties in their individual capacity as members of the Scheme. All claims were paid out in terms of the rules of the Scheme as applicable to third parties.

	2018 R '000	2017 R '000
Parties with significant influence over the Scheme, but not control		
Statement of Comprehensive Income		
Administration fees	1,091,680	1,146,025
Accredited managed healthcare fees	763,451	710,012
Actuarial fees	10,031	6,814
Trade and other payables		
Administration fees due	87,282	150,924
Accredited managed healthcare fees due	64,605	55,456
	151,887	206,380

Terms and conditions of the administration agreement

Administration fees are calculated on an arm's length basis on the number of members in good standing for the month. These contracts are renewable annually.

The outstanding balance bears no interest and is settled within 7 days. The Scheme has the right to terminate the agreements on 90 days' notice.

The services covered by these agreements include:

Service	Provider 2018	Provider 2017
Contribution and Debt Services	Medscheme (Pty) Ltd	Medscheme (Pty) Ltd
Correspondence Services	Metropolitan Health Pty (Ltd)	Business Collaborate Pty (Ltd)
Administration Services	Metropolitan Health Corporate (Pty) Ltd (MHC)	Metropolitan Health Corporate (Pty) Ltd (MHC)

Terms and conditions of the managed care agreements

The Scheme has entered into managed care agreements in order to manage the costs of delivering healthcare services to its members while ensuring the highest quality of care.

All contracts are tendered for a maximum contract period of 3 to 5 years. The Scheme has the right to terminate the agreements on 90 days' notice. In respect of hospital pre authorisation and HIV and disease management, managed care and pharmaceutical benefit management fees are calculated based on the number of members in good standing for the month. The outstanding balance bears no interest and is settled within 7 days.

The services covered by these agreements include:

Service	Provider 2018	Provider 2017
Chronic medicine management services	Universal Care (Pty) Ltd	Universal Care (Pty) Ltd
Dental managed care	Denis (Pty) Ltd	Denis (Pty) Ltd
HIV disease management services	Thebe Health Risk Management	Thebe Health Risk Management
Managed health care services	Medscheme Holdings (Pty) Ltd	Medscheme Holdings (Pty) Ltd
Maternity programme services	Healthi Choices (Pty) Ltd	Healthi Choices (Pty) Ltd
Emergency medical dispatch services	Europ Assist (Pty) Ltd	Europ Assist (Pty) Ltd
Pharmaceutical benefit management services	Medikredit (Pty) Ltd	Medikredit (Pty) Ltd
Telemarketing services	EOH Abantu (Pty) Ltd	EOH Abantu (Pty) Ltd
Health and wellness services	Healthi Choices (Pty) Ltd	Healthi Choices (Pty) Ltd

25. INSURANCE RISK MANAGEMENT

Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Scheme is that it assumes the risk of loss by members and their dependants that are directly subject to the risk. These risks relate to the health of the Scheme's members. As such the Scheme is exposed to the uncertainty surrounding timing and severity of claims under the contract. The Scheme also has exposure to market risk through its insurance and investment activities.

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

The Scheme uses several methods to assess and monitor insurance risk exposure both for individual types of risks insured and overall risks. The Scheme analyses the distribution of claims per category of claim, average age of members per member group, average age per benefit option, actual number of members per benefit option and the geographic distribution of members.

The Scheme uses the average age per member and claims per category of benefits to analyse its insurance risk. Income bands and geographical spread are not good indicators as the Scheme's risk is not concentrated in a specific income band or geographical location. Analyses based on the ageing of members indicate specific risks and behaviours that result in increased claims and these can be further analysed in different categories to inform the Scheme's interventions of which managed care is key.

Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The table below summarises the concentration of risk, with reference to the carrying amount of the insurance claims incurred (before and after risk transfer arrangements), by age group and in relation to the type of cover/benefit provided where:

- Hospital benefits cover all costs incurred by members, while they are in hospital to receive pre-authorised treatment for certain medical conditions.
- Specialist benefits cover the cost of all visits by members to specialists and of the out of hospital procedures performed by specialists. Specialist benefits also include radiology and pathology benefits provided to members.
- Medicine benefits cover the cost of all medicines prescribed to members.
- General Practitioner and Optometry benefits cover the cost of all visits by members to these practitioners and the procedures performed by them, up to a prescribed annual limit per member.

The Scheme profiles members' risk exposure by using their age. Of the various other indicators available, age provides a better indication of who is most likely to claim.

2018 Insurance Age Grouping (in years)	Hospitals	Specialists	Medicines	General Practitioners	Optometry	Other	Total
	R '000	R '000	R '000	R '000	R '000	R '000	R '000
<26	3,699,841	2,425,923	1,782,068	621,755	213,546	1,336,001	10,079,134
26 35	96,641	53,874	18,498	17,614	4,425	20,561	211,613
36 50	1,800,393	1,035,554	524,223	369,538	78,410	477,522	4,285,640
51 65	4,303,689	2,763,145	2,028,061	970,299	274,092	1,578,616	11,917,902
>65	1,823,855	1,133,713	726,375	147,758	46,313	532,994	4,411,008
	11,724,419	7,412,209	5,079,225	2,126,964	616,786	3,945,694	30,905,297

2017 Insurance Age Grouping (in years)	Hospitals	Specialists	Medicines	General Practitioners	Optometry	Other	Total
	R '000	R '000	R '000	R '000	R '000	R '000	R '000
<26	107,801	59,210	21,260	20,553	4,610	25,387	238,821
26 35	1,784,201	1,014,042	567,218	380,461	79,419	503,963	4,329,304
36 50	4,102,314	2,592,633	2,045,560	955,069	265,398	1,547,053	11,508,027
51 65	3,283,208	2,082,613	1,632,713	570,576	189,903	1,181,070	8,940,083
>65	1,616,056	952,530	650,723	126,371	40,738	468,617	3,855,035
	10,893,580	6,701,028	4,917,474	2,053,030	580,068	3,726,090	28,871,270

The information presented in this table is based on claims with a service date during the relevant year.

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 and, as such, it is believed that this reduces the variability of the outcome.

The reporting of claims by age group is impacted by members who join and leave in the same month.

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 of those claims outstanding that are not yet reported at that date. Details regarding the subsequent claim development in respect thereof have been disclosed in note 10 & 22.

26. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

The Scheme's activities expose it to credit risk, liquidity risk and market risk, including the effects of interest rate changes. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments that the Scheme holds to meet its obligation to its members.

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

The Scheme manages the financial risks as follows:

- The Finance and Investment Committee, a committee of the Board of Trustees, determines, recommends, implements and maintains investment policies and procedures. The Investment Committee advises the Board of Trustees on the strategic and operating matters in respect of the investment of Scheme funds and meets at least quarterly.
- The Scheme has appointed reputable external asset managers to manage its investments and their performance is monitored regularly.
- An external asset consulting company has been appointed to assist in formulating the investment strategy and to provide ongoing reporting and monitoring of the asset managers.
- Investment strategy is guided by or within the risk appetite and risk tolerance set by the Board

Risk management and investment decisions are carried out by the executive management, under the guidance of policies approved by the Board of Trustees. The Board of Trustees approves all these written policies and there has been no change in these policies from previous financial years.

Market risk

Market risk is the risk that changes in market variables 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 investment.

The table summarises the Scheme's financial instrument exposure to market risk as at December 31, 2018 and excludes trade and other receivables and trade and other payables as they are not exposed to currency risk, price risk and interest rate risk.

As at December 31, 2018	Total value R '000	Currency risk R '000	Price risk R '000	Interest rate risk R '000
Cash and cash equivalents	2,435,201	-	-	2,435,201
Equities	875,430	-	875,430	-
Local bonds	876,070	-	876,070	-
Local money markets	7,013,131	-	-	7,013,131
Foreign money markets	21	21	-	-
Foreign bonds	249,502	249,502	-	-
	11,449,355	249,523	1,751,500	9,448,332

As at December 31, 2017	Total value R '000	Currency risk R '000	Price risk R '000	Interest rate risk R '000
Cash and cash equivalents	5,488,609	-	-	5,488,609
Equities	281,210	-	281,210	-
Local bonds	242,791	-	242,791	-
Local money markets	1,880,847	-	-	1,880,847
Foreign money markets	4	4	-	-
Foreign bonds	71,770	71,770	-	-
	7,965,231	71,774	524,001	7,369,456

Interest rate risk

The Scheme is exposed to interest rate risk as it places funds in call accounts and money market instruments. This risk is managed by maintaining an appropriate mix between the Scheme's money market portfolio, call account investments as guided by the investment policy.

Cash and cash equivalents comprise deposits held on call with banks, cash on hand and other short term liquid investments. These deposits are readily convertible to a known amount of cash and are subject to insignificant risk of change in value. Cash and cash equivalents are classified as loans and receivables.

The table summarises the Scheme's total exposure to interest rate risks as at 31 December. Included in the table are the Scheme's investments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at December 31, 2018	Up to 3 months R '000	3 - 12 months R '000	More than 12 months R '000	Total
Cash and cash equivalents	2,435,201	-	-	2,435,201
Local money markets	4,758,795	1,696,543	557,793	7,013,131
	7,193,996	1,696,543	557,793	9,448,332

As at December 31, 2017	Up to 3 months R '000	3 - 12 months R '000	More than 12 months R '000	Total
Cash and cash equivalents	5,098,609	390,000	-	5,488,609
Local money markets	1,322,246	448,103	110,498	1,880,847
	6,420,855	838,103	110,498	7,369,456

The average effective interest rates for the year ended 31 December were as follows:

	2018 R '000	2017 R '000
Current accounts	5.25%	5.25%
Call accounts	6.86%	6.61%
Fixed deposits	N/A	7.70%
Money market instruments carried at fair value through profit or loss	6.45%	8.88%

Interest rate risk sensitivity analysis

The information below illustrates the impact that the fluctuation in investment income would have on interest income for the period and on the cash and cash equivalent balance. A rate of 0.50% interest rate variance has been used to illustrate the sensitivity.

Based on past experience and a reasonable possible change in interest rate within the life of the investment, the rate of 0.50% is considered appropriate in measuring the sensitivity of the Scheme's interest bearing instruments. The Scheme's investments are short term in nature with a maximum investment period of twelve months permitted. This sensitivity analysis assumes that all other variables remain constant.

At December 31, 2018, if interest rates had been 50 basis points higher with all other variables held constant, the surplus for the year and accumulated funds would have been R16.2 million higher (2017: surplus would have been R15.2 million higher).

At December 31, 2018, if interest rates had been 50 basis points lower with all other variables held constant, the surplus for the year and accumulated funds would have been R16.2 million lower (2017: surplus would have been R14.9 million lower).

Currency risk

The Scheme operates in South Africa and its cash flows are denominated in South African Rand. However through its investments, the Scheme is exposed to a direct currency risk.

For purpose of seeking investment diversification, the Scheme has invested 2.8% (2017: 2.9%) of its financial assets at fair value through profit or loss in offshore bond and cash portfolios. At December 31, 2018 this equated to R249.5 million (2017: R71.8 million).

The fair value of these contracts has been included in financial assets. Gains and losses on these arrangements are included in the surplus.

Currency risk sensitivity analysis

Based on past experience and a reasonable possible change in currency, 10% and 15% change in currency is considered appropriate in measuring the Scheme's currency risk sensitivity. A 10% depreciation in the Rand would result in a gain of R19.9 million (2017: R12.1 million) and a 15% depreciation in the Rand would result in a gain of R31.5 million (2017: R18.2 million). A 10% appreciation in the Rand would result in a loss of R14.8 million (2017: R11.9 million) and a 15% appreciation in the Rand would result in a loss of R19.8 million (2017: R17.7 million). This impact would be recognised in the surplus and accumulated funds. The sensitivity is based on the assumption that the Rand has strengthened or weakened against the US Dollar by 10% or 15% considered as the reasonable possible change, with all other variables held constant.

The following US Dollar exchange rate was applied.

	2018 R '000	2017 R '000
Average rate	13.25	13.27
Year-end closing rate	14.49	12.38

Price risk

The Scheme is exposed to equity securities price risk due to equity investments held by the Scheme that are classified at fair value through profit and loss. The Scheme is indirectly exposed to equity risk through its investments in listed equities. The value of the equity investments was R875.4 million (2017: R281.21 million)

The Scheme manages the price risk arising from investments in equity securities, through the diversification of its investment portfolios.

Diversification of the portfolios is performed by asset managers in accordance with the mandate set by the Scheme.

Equity price risk sensitivity analysis

Based on past experience and a reasonable possible change in equity prices, 10% and 15% change in equity prices is considered appropriate in measuring the Scheme's equity price risk sensitivity. A 10% increase in the price of equities within the equity portfolios would result in a gain of R74.9 million (2017: R31.8 million) and a 15% increase would result in a gain of R112.7 million (2017: R47.8 million). A 10% decrease in the price would result in a loss of R74.0 million (2017: R31.8 million) and a decrease of 15% would result in a loss of R110.6 million (2017: R47.8 million). This impact would be recognised in the surplus and accumulated funds. The sensitivity is based on the assumption that equity prices had increased or decreased by 10% or 15% considered as the reasonable possible change, with all other variables held constant.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. The availability of liquid cash holdings positions with various financial institutions ensures that the Scheme has the ability to fund its day to day operations. The Scheme manages liquidity risk by monitoring forecast cash flows and ensuring that adequate reserves are maintained. This approach ensures that the Scheme will have sufficient liquidity to meet its obligations when due, under both normal and stressed market conditions, without incurring losses that would threaten the Scheme's going concern status. The Scheme's available funds were invested in cash products to ensure that the Scheme can meet its short term obligations. The table below reflects the Scheme's liquidity requirements to meet its financial obligations.

At December 31, 2018 Category	Less than 1 month R '000	Between 1 and 3 months R '000	Between 3 months and 1 year R '000	Over 1 year R '000	Total R '000
Insurance liabilities:					
Outstanding claims provision	722,800	399,440	122,840	-	1,245,080
Non-derivative financial liabilities:					
Amounts owing to members and providers	88,102	-	-	-	88,102
Claims reported not yet paid	134,867	-	-	-	134,867
Sundry payables and accrued expenses	297,177	-	-	-	297,177
Unallocated deposits	1,558	-	-	-	1,558
Personal medical savings accounts liability	862,691	-	-	-	862,691
Total liabilities	2,107,195	399,440	122,840	-	2,629,475
Cash and Cash Equivalents	2,435,201	-	-	-	2,435,201
Financial Assets at fair value through profit or loss	150,235	5,056,354	1,696,543	2,111,023	9,014,155
Available cash and investments	2,585,436	5,056,354	1,696,543	2,111,023	11,449,356
Excess liquidity	478,241	4,656,914	1,573,703	2,111,023	8,819,881

At December 31, 2017 Category	Less than 1 month R '000	Between 1 and 3 months R '000	Between 3 months and 1 year R '000	Over 1 year R '000	Total R '000
Insurance liabilities:					
Outstanding claims provision	621,400	398,200	104,000	-	1,123,600
Non-derivative financial liabilities:					
Amounts owing to members and providers	99,591	-	-	-	99,591
Claims reported not yet paid	809,553	-	-	-	809,553
Sundry payables and accrued expenses	283,420	-	-	-	283,420
Unallocated deposits	708	-	-	-	708
Personal medical savings accounts trust liability	759,387	-	-	-	759,387
Total liabilities	2,574,059	398,200	104,000	-	3,076,259
Financial assets at fair value through profit or loss	256,075	1,203,465	519,873	497,210	2,476,623
Scheme monies invested	3,578,609	1,520,000	390,000	-	5,488,609
Available cash and investments	3,834,684	2,723,465	909,873	497,210	7,965,232
Excess liquidity	1,260,625	2,325,265	805,873	497,210	4,888,973

Credit risk

Credit risk is the risk of financial loss to the Scheme, if a counterpart to a financial instrument fails to meet its contractual obligations. Key areas where the Scheme is exposed to credit risk are:

- Financial assets at fair value through profit or loss
- Cash and cash equivalents
- Trade and other receivables

The Scheme only deposits cash with registered banks per the South African Reserve Bank's Supervision Unit with high quality credit standing and limits the exposure to any one financial institution.

Financial assets are valued at fair value through profit or loss comprise money market and bond instruments entered into to fund the obligations arising from its insurance contracts and to invest surplus funds to maintain the statutory reserve requirement. The Scheme is exposed to the issuer's credit standing on these instruments. Exposure to credit risk is monitored and minimum credit ratings for these investments are set. Reputable asset managers have been appointed to manage these instruments.

Cash and cash equivalents

	2018 R '000	2017 R '000
ABSA Bank	-	1,200,000
First National Bank	733,597	488,129
Investec Bank	-	859,000
Nedbank	-	980,000
Standard Bank	-	545,000
South African Reserve Bank	1,701,604	1,416,480
	2,435,201	5,488,609

Ratings of Banks invested with:

	2018	2017
ABSA Bank	BB	BB+
First National Bank	BB	BB+
Investec Bank	BB	BB+
Nedbank	BB	BB+
Standard Bank	BB	BB+
South African Reserve Bank	A	A
Rand Merchant Bank	BB	BB+

The maximum exposure to credit risk for financial assets at year-end were as follows:

	2018	2017
Other financial assets	9,014,155	2,476,623
Loans and receivables (Cash and cash equivalents)	2,435,201	5,488,609
Loans and receivables (Trade and other receivables)	375,076	405,117
	11,824,432	8,370,349

The amounts represented in the Statement of Financial Position for trade and other receivables are net of allowances for doubtful receivables.

An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The ageing of insurance receivables at year end was:

As at December 31, 2018	Not past due, not impaired R '000	Past due, not impaired R '000	Impaired R '000	Total R '000
Contribution debtors	259,673	11,659	4,490	275,822
Receivables from members and providers	2,409	6,913	113,978	123,300
Sundry accounts receivable	26,364	-	-	26,364
As at December 31, 2017	Not past due, not impaired R '000	Past due, not impaired R '000	Impaired R '000	Total R '000
Contribution debtors	284,940	6,892	35	291,867
Receivables from members and providers	30,058	5,760	93,211	129,029
Sundry accounts receivable	23,589	-	-	23,589

The table below provides an age analysis of the receivables that are not yet impaired.

Amounts outstanding for 30 days are not impaired, as they are within the normal expected recovery period. The credit quality of financial assets that are neither past due nor impaired has been assessed on the basis of historical information. This information indicated that the majority of debt is settled just after year end and within the rules of the Scheme. The amounts not past due have been collected shortly after year end.

The carrying amount of these financial instruments best represents the maximum exposure to credit risk.

As at December 31, 2018	3 30 days R '000	31 60 days R '000	61 90 days R '000	Total R '000
Contribution debtors	259,673	6,853	4,806	271,332
Receivables from members and providers	2,409	2,301	4,612	9,322

As at December 31, 2017	3 30 days R '000	31 60 days R '000	61 90 days R '000	Total R '000
Contribution debtors	284,940	5,521	1,371	291,832
Receivables from members and providers	30,058	4,200	1,559	35,817

Management information reported to the Scheme includes details of allowances for impairments on receivables. The table below provides an analysis of receivables that were impaired.

	2018 R '000	2017 R '000
Receivables impaired:		
Contribution debtors		
120 days	4,356	80
Receivables from members and providers		
120 days	113,729	87,499
Total	118,085	87,579

The amounts represented in the Statement of Financial Position are net of impairment receivables, estimated by the Scheme's management based on outcomes of recovery processes, prior experience and the current economic environment.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Scheme is the current closing price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. Specific valuation techniques used to value financial instruments include quoted market prices or dealer quotes for similar instruments.

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

The members' Personal Medical Savings Accounts contain a demand feature. In terms of Regulation 10 of the Act, any credit balance on a member's Personal Medical Savings Account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit plan, and enrolls in another benefit plan or medical scheme without a savings account or does not enroll in another medical scheme. Therefore the carrying values of the members' Personal Medical Savings Accounts are deemed to be equal to their fair values, which is the amount payable on demand.

Fair value of financial assets by hierarchy level

At December 31, 2018	Carrying amount R '000	Total R '000	Level 1 R '000	Level 2 R '000	Level 3 R '000
Cash and cash equivalents	2,435,201	2,435,201	-	2,435,201	-
Financial assets at fair value through profit or loss	9,014,155	9,014,153	3,590,671	5,407,628	15,854
Equities	875,430	875,430	875,430	-	-
Local bonds	876,070	876,070	876,070	-	-
Local money markets	7,013,131	7,013,130	1,589,669	5,407,607	15,854
Foreign money markets	21	21	-	21	-
Foreign bonds	249,502	249,502	249,502	-	-
	11,449,355	11,449,354	3,590,671	7,842,829	15,854

At December 31, 2017	Carrying amount R '000	Total R '000	Level 1 R '000	Level 2 R '000	Level 3 R '000
Cash and cash equivalents	5,488,609	5,488,609	-	5,488,609	-
Financial assets at fair value through profit or loss	2,476,622	2,476,622	1,067,315	1,409,307	-
Equities	281,210	281,210	281,210	-	-
Local bonds	242,791	242,791	242,791	-	-
Local money markets	1,880,847	1,880,847	471,540	1,409,307	-
Foreign money markets	4	4	4	-	-
Foreign bonds	71,770	71,770	71,770	-	-
	7,965,231	7,965,231	1,067,315	6,897,916	-

The fair value assets are classified using a fair value hierarchy that reflects the significance of the inputs used in determining the measurements.

The fair value hierarchy has the following levels:

Level 1 – These are assets measured using quoted prices in an active market

Level 2 – These are assets measured using inputs other than quoted prices included within Level 1, that are either directly or indirectly observable.

Level 3 – These are assets measured using inputs that are not based on observable market data.

Capital adequacy risk

Capital adequacy risk is the risk that there may be insufficient reserves to provide for adverse variations in actual future benefit liabilities. In terms of Regulation 29(3)A of the Medical Schemes Act, a medical scheme registered for the first time must maintain reserves of no less than:

First year of operations	10.00%
Second year of operations	13.50%
Third year of operations	17.50%
Fourth year of operations	22.00%
Fifth year of operations	25.00%

The Registrar of Medical Schemes, in terms of the business plan submitted by the Scheme in 2017, agreed to revise the required reserve levels which will apply to the Scheme for each related year of operation:

	Actual levels	CMS approved levels
31 December 2015	9.46%	10.10%
31 December 2016	6.99%	9.90%
31 December 2017	15.22%	8.20%
31 December 2018	24.74%	18.40%

The Scheme monitors and manages the capital adequacy risk through the following means:

- The capital adequacy risk is documented on the risk register that is regularly reviewed by the Board of Trustees.
- Scheme management reviews the monthly management accounts where the Scheme's financial performance is monitored.
- Monthly management accounts and the Scheme's quarterly performance reports are submitted to and discussed with the Council for Medical Schemes.
- The annual budgeting process, long term projections and planning allows the Scheme to review its capital adequacy and reserve levels to ensure continuity of operations and sustainability.

27. GUARANTEES AND COMMITMENTS

The Scheme held guarantees in favor of the following instructions during the year

	2018 R '000	2017 R '000
Council for Medical Scheme	2,500	2,500
South African Post Office	5,000	5,000
	7,500	7,500

The guarantee in favour of the Council for Medical Schemes has been issued in terms of Section 24(5) of the Medical Schemes Act, 1998. The Act prescribes that the Registrar may demand from the person who manages the business of a medical scheme such financial guarantees as will in the opinion of the Council ensure the financial stability of the medical scheme.

The guarantee in favour of the South African Post Office allows the Scheme to transact directly with the service provider for the provision of postal services, rather than procuring these services on an agency basis.

28. REGULATORY NON - COMPLIANCE

To the best of the Scheme's knowledge, the compliance matters listed below cover all of the noncompliance matters for the 2018 financial year.

Late paying Employer groups

Nature

In terms of Rule 13.2 of GEMS' Scheme Rules and Section 26(7) of the Medical Schemes Act members' contributions are due monthly in arrears and payable by no later than the third day of each month.

Cause

During the period under review, certain employer groups paid over contributions on behalf of their members after the third day of the month. Late payment may result in a loss of interest earned for the Scheme; however this is not significant due to the short duration of the contributions being outstanding.

Corrective action

Scheme Management engaged with the employer groups concerned to ascertain the reasons for the late payment of contributions and to highlight the impact of this practice on members of the Scheme. The Council for Medical Schemes is informed quarterly of any late payers and the Auditor General is informed annually. At year end there were nine late paying employer groups. Subsequently these amounts have been received.

Minimum accumulated funds

Nature

In terms of Regulation 29(2), (3) or (3A) of the Medical Schemes Act of 1998, a medical scheme shall maintain a minimum accumulated funds level of 25%. As prescribed by Regulation 29(4), where a medical scheme for a period of 90 days fails to comply with sub regulations 29(2), (3) or (3A) of the Medical Schemes must notify the regulator of such noncompliance.

Cause

The Scheme's minimum accumulated funds ratio throughout the year was below the required target of 25% as provided for in the Act and above what was subsequently approved by the Registrar on 27 March 2017. Reserves below the required 25% prescribed by the Act may be an indication that a Medical Scheme may have reserve concerns which would impact on the Scheme's ability to pay claims.

Corrective action

The Scheme is however accumulating funds in accordance with a business plan approved by the Registrar. The Registrar was notified of the Scheme's performance throughout 2018 with the submission of quarterly performance reports and quarterly meetings with the CMS. The Scheme's reserve ratio level at 31 December 2018 was 24.74% (2017:15.22%).

Benefit Options

Nature

In terms of Section 33(2) of the Medical Schemes Act, medical scheme options shall be self-sufficient in terms of membership and financial performance.

Cause

The Scheme's Onyx option did not meet the self-sufficiency requirement in terms of Section 33(2) of the Medical Schemes Act. Loss making options adversely affect the financial performance of the Scheme and the reserve ratio. The claims on the Onyx option were driven by the option's older demographic profile, which resulted in higher claims being incurred relating to chronic and lifestyle related diseases. The migration of the pre1992 pensioners to this option in prior years also resulted in the financial performance being adversely affected during the financial year.

Corrective Action

The Scheme is however accumulating funds in accordance with a business plan approved by the Registrar. The Registrar was notified of the Scheme's performance throughout 2018 with the submission of quarterly performance reports and quarterly meetings with the CMS. Part of the quarterly submission are actuarial reports for the specific option in order for CMS to see progress of the options against the business plan and budget for the year.