WCMAS

Our members Our passion

Witbank Coalfields Medical Aid Scheme

2019 ANNUAL REPORT

- Providing health cover for diverse population of members
- Your health and well-being is important to us
- Understanding of the mining industry
- Valuable relationships
- Team work

Providing affordable healthcare funding to our members for **85** *years*

Witbank Coalfields Medical Aid Scheme

(Registration number 401)

Annual Financial Statements
for the year ended 31 December 2019

Contents

The reports and statements set out below comprise the financial statements presented to the members:

LEVEL OF ASSURANCE

These financial statements have been audited in compliance with the applicable requirements of the Medical Schemes Act of South Africa No. 131 of 1998, as amended.

PREPARER

TP Bothma (Chartered Accountant (SA))

PUBLISHED

03 June 2020

Report of the Board of Trustees

The Board of Trustees ("the Trustees") hereby presents their report to the members on the financial statements of Witbank Coalfields Medical Aid Scheme ("WCMAS") for the year ended 31 December 2019.

1. GOVERNANCE AND SCHEME INFORMATION

1.1 BOARD OF TRUSTEES

The Board of Trustees is committed to adhering to the principles of best corporate practice in a transparent and ethical manner. It accepts full responsibility and accountability to all stakeholders of the Scheme. During the year under review, the Board of Trustees applied prudent risk management processes within the parameters and in compliance with the rules of the Scheme and the Medical Schemes Act of South Africa No. 131 of 1998, as amended. Except for matters set out under note 32 of the annual financial statements, the Trustees are satisfied that the Scheme complied with the provisions of its rules and the Medical Schemes Act of South Africa No. 131 of 1998, as amended, and its regulations. For the year ended 31 December 2019, 11 official Board of Trustees' meetings were held and the Trustees for the Scheme were:

Name	Member	Position held	Changes
OA Maritz	No	Management appointed Trustee	
M Dugmore	Yes	Management appointed Trustee	
AJ Nienaber	Yes	Co-opted Trustee	Resigned 01 July 2019
HGR Schoeman	Yes	Management appointed Trustee	
JC de Carvalho	Yes	Member elected Trustee	
KL Leripa	Yes	Member elected Trustee	Appointed 28 May 2019
PM Motubatse	No	Co-opted Trustee	
RA Mofokeng	Yes	Member elected Trustee	
SN Makile	Yes	Alternate Trustee	
TA Gloss	No	Co-opted Trustee	Appointed 28 May 2019
TM Masike	Yes	Management appointed Trustee	
CD Logan-Delagey	Yes	Member elected Trustee	
MH Pearson	Yes	Member elected Trustee	
S Viljoen	Yes	Management appointed Trustee	
ZP Nkosi	No	Alternate Trustee	Appointed 28 May 2019
MP Barnes	Yes	Co-opted Trustee	Resigned 28 May 2019
E Pretorius	Yes	Alternate Trustee	Resigned 28 May 2019
TS Lessing	Yes	Alternate Trustee	Resigned 28 May 2019
JA de Jager	Yes	Member elected Trustee	Resigned 28 May 2019
S Matthews	No	Co-opted Trustee	Appointed 28 August 2019
A Mazibuko	No	Co-opted Trustee	Appointed 28 August 2019
E Buthelezi	No	Co-opted Trustee	Appointed 28 August 2019

1.2 PRINCIPAL OFFICER

AM Jacobs - appointed 1 January 2019

1.3 REGISTERED OFFICE AND POSTAL ADDRESS

WCMAS Building, second floor	PO Box 26
c/o OR Tambo Road & Susanna Street	Emalahleni
Emalahleni	1035
1035	

1.4 AUDITORS

PricewaterhouseCoopers Inc.

WCMAS Building	PO Box 500
c/o Susanna & OR Tambo Street	River Crescent
Emalahleni	1042
2090	

1.5 ACTUARIES

3ONE (Pty) Ltd

40 Royce Road
Bryanston
2191

Report of the Board of Trustees

1.6 INVESTMENT MANAGERS

Willis Towers Watson

2. DESCRIPTION OF THE MEDICAL SCHEME

2.1 TERMS OF REGISTRATION

Witbank Coalfields Medical Aid Scheme ("WCMAS"), with registration number 401, is a non-profit, restricted membership, self-administered medical aid scheme registered in terms of the Medical Schemes Act of South Africa No. 131 of 1998, as amended, and has been servicing its members, associated employer groups and the community for over 80 years. The Scheme was founded in 1935 and originated from the amalgamation of a number of “medical clubs” operated by some of the Coal Mines in the Witbank area.

These “medical clubs” date back to the early 1920’s and mainly offered their members hospital benefits for a monthly membership fee. In 1935, these “medical clubs” amalgamated and formed the Witbank Coalfields Benefit Society (WCBS), a non-profit organisation offering its members medical cover mainly through a panel doctor system. With the development in the coal mining industry the Scheme flourished and in 1976 it changed from a benefit society to a medical aid scheme, offering members a wide range of benefits at service providers of their choice.

WCMAS is a stead-fast and stable scheme built on the following core values:

- a member is not a number;
- the member's health and well-being is of great importance to the Scheme;
- the service provided to members, service providers and employers are important;
- the Scheme enforces an open-door policy; and
- the Scheme strives towards healthcare funding at affordable rates, while maintaining a financially viable scheme.

2.2 BENEFIT OPTIONS

The Scheme offered four benefit options to participating employer groups and members of the public, namely:

- Comprehensive - this option provides comprehensive cover through a risk pool for all major medical expenses and a savings account of 25% for day-to-day medical expenses;
- Midmas - this is a new generation option providing access to hospitalisation in any private hospital and a discretional savings account of 18% for day-to-day benefits;
- Ntsika - this is a low cost option providing access to a network of service providers including hospitalisation in private hospitals; and
- Yebomed - this option provides medical cover through a preferred provider network on a capitation fee basis. This option is a risk transfer arrangement. A capitation fee is paid to the preferred provider network to provide a full range of benefits to all members in this option. The risk is carried by the network. The Scheme does, however, remain liable to its members and suppliers with respect to ceded insurance if any reinsurer (supplier) fails to meet the obligations it assumes.

2.3 MEDICAL SAVINGS ACCOUNT

Witbank Coalfields Medical Aid Scheme provides personal medical savings account options through the Comprehensive and Midmas options. The savings plan was established to meet future day-to-day healthcare costs not fully covered by the risk pool.

Personal medical savings are managed on the members’ behalf in terms of the Scheme rules and the Medical Schemes Act of South Africa No. 131 of 1998, as amended. Savings contributions are refundable when a member enrols in another benefit option or another medical scheme without a personal medical savings account, or does not enrol in another medical scheme, and the accumulated unutilised personal medical savings account balance will be transferred to the member in terms of the Scheme’s rules.

Unexpended savings amounts are accumulated for the long-term benefit of the member and interest is accumulated on the effective interest method. The liability to the members in respect of the savings plan is reflected as a current liability in the financial statements, in terms of Regulation 10. In terms of the rules of the Scheme, the Scheme carries some risk relating to forward allowance of savings account utilisation.

The savings account balance is refundable when a member leaves the Scheme. The balance will be transferred to the next scheme or to the member if the new option does not have a savings account option. The money will be transferred within four months of the date of change.

2.4 RISK TRANSFER ARRANGEMENTS

The Scheme has capitation agreements with Netcare 911 and Europe Assistance to provide services to the Scheme. Refer to note 31.4 of the annual financial statements for more detail on risk transfer arrangements.

3. TRUSTEES' AND AUDIT AND GOVERNANCE COMMITTEE REMUNERATION

The members of the Board of Trustees and Audit and Governance committee have been remunerated for services rendered to the Scheme on the basis of expertise, skills and time needed to serve as a Trustee or Audit and Governance committee member.

The Scheme's Remuneration committee was tasked with implementing a remuneration philosophy and policy for the Trustees and officers of the Scheme and is remunerated for these services.

Report of the Board of Trustees

4. MANAGEMENT OF INSURANCE RISK

The primary insurance activity carried out by the Scheme assumes the risk of loss from members and their dependants that are directly subject to the risk related to the health of the Scheme's members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

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

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

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

5. REVIEW OF THE YEAR'S ACTIVITIES

5.1 OPERATIONAL OVERVIEW

Some high claims were honoured in the year under review but, overall, claims are reasonable and in line with recent trends. There was also an increase in hospital costs which may be attributable to the high cost medical cases.

The Scheme's two new options, Midmas and Ntsika effectively started operating from 1 January 2017 and has gained some members with more growth expected in 2020. The scheme is actively pursuing growth within these options.

5.2 FINANCIAL RESULTS

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

5.3 STATUTORY SCHEME SOLVENCY

The solvency ratio has decreased by 15.75% (2018: 7.4%) for this period mainly as a result of the increase in members and lower realised surpluses for the year. It is still significantly above the minimum requirement of 25%.

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

	Notes	2019 R	2018 R
Total members' funds per statement of financial position		499 902 959	503 151 236
Revaluation reserve	15	15 163 336	19 156 780
Accumulated funds per Regulation 29		**515 066 295**	**522 308 016**
Gross contributions		516 173 108	457 304 108
Solvency ratio (accumulated funds / gross contributions)		99.79 %	114.21 %

5.4 OUTSTANDING CLAIMS

The basis of calculation of the outstanding claims provision is discussed in note 13 of the annual financial statements and this is consistent with the prior year. Movements on the outstanding claims provision are also set out in the note.

During the year, the Scheme experienced higher than anticipated claims, although the amount was less than the previous year. This was a common occurrence throughout the industry. In additional to higher claims incurred, the Scheme experienced more frequent, unanticipated high cost events by its members than in the prior periods.

Report of the Board of Trustees

5.5 OPERATIONAL STATISTICS

2019

	Compre-hensive	Midmas	Ntsika	Yebomed	Totals
Average number of members for the year	6 489	178	503	2 228	9 398
Number of registered members at year-end	6 573	185	518	2 194	9 470
Average number of beneficiaries for the year	16 951	397	659	6 030	24 037
Number of registered beneficiaries at year-end	17 204	412	693	5 975	24 284
Dependant ratio at year-end	1.62	1.23	0.34	1.72	1.56
Average age per beneficiary at year end	31.1	27.4	30.2	26.4	29.9
Pensioner ratio at year-end	7.1 %	0.5 %	- %	0.3 %	5.1 %
Average risk contributions net of savings per member per month	R 4 358	R 2 958	R 1 430	R 1 798	R 3 567
Average risk contributions net of savings per beneficiary per month	R 1 666	R 1 326	R 1 092	R 664	R 1 393
Average relevant healthcare expenditure per member per month	R 4 460	R 1 885	R 993	R 1 737	R 3 579
Average relevant healthcare expenditure per average beneficiary per month	R 1 705	R 845	R 758	R 642	R 1 398
Relevant healthcare expenditure as a percentage of risk contribution	102.3 %	63.7 %	69.4 %	96.6 %	100.3 %
Average non-healthcare expenses per beneficiary per month	R 179.06	R 55.55	R 97.81	R 40.18	R 139.95
Non-healthcare expenses as a percentage of risk contribution	10.8 %	4.2 %	9.0 %	6.0 %	10.1 %
Accumulated funds per member at year-end					R 54 389
Return on investments as percentage of total investments					5.94 %

2018

	Compre-hensive	Midmas	Ntsika	Yebomed	Totals
Average number of members for the year	6 231	143	319	2 282	8 975
Number of registered members at year-end	6 306	146	477	2 261	9 190
Average number of beneficiaries for the year	16 282	311	455	6 065	23 113
Number of registered beneficiaries at year-end	16 559	318	622	6 039	23 538
Dependant ratio at year-end	1.63	1.18	0.30	1.67	-
Average age per beneficiary at year end	30.7	28.0	30.2	26.0	29.4
Pensioner ratio at year-end	20.4 %	- %	- %	- %	5.0 %
Average risk contributions net of savings per member per month	R 4 016	R 2 817	R 1 478	R 1 658	R 3 307
Average risk contributions net of savings per beneficiary per month	R 1 537	R 1 295	R 1 037	R 624	R 1 284
Average relevant healthcare expenditure per member per month	R 4 147	R 1 668	R 1 035	R 1 623	R 3 355
Average relevant healthcare expenditure per average beneficiary per month	R 1 587	R 767	R 726	R 611	R 1 303
Relevant healthcare expenditure as a percentage of risk contribution	103.3 %	59.2 %	70.7 %	97.9 %	101.5 %
Average non-healthcare expenses per beneficiary per month	R 115.55	R 59.49	R 88.71	R 38.92	R 94.16
Non-healthcare expenses as a percentage of risk contribution	7.6 %	4.7 %	8.6 %	6.2 %	7.4 %
Accumulated funds per member at year-end					R 56 834
Return on investments as percentage of total investments					8.81 %

Report of the Board of Trustees

6. EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

South Africa confirmed its first case of the COVID-19 virus on 5 March 2020. As of 15 March 2020, a state of disaster was declared by the presidency. The presidency declared a national lock down of the state which will be in effect from 26 March. The impact of the virus varies greatly based on the demographics of the population. The ultimate infection rate remains highly uncertain across the globe. Certain projections have estimate that this could be 60% - 70% (as communicated by South Africa's Minister of Health).

There is significant uncertainty globally regarding the trajectory of the pandemic as well as the associated costs. Currently available information remains largely uncertain and unverifiable in the absence of corroborating data. Results are likely to change as more data becomes available.

The manageability of costs is highly dependent on the term over which the infections occur and the slowing of the virus through measures such as hygiene and social distancing are critical, as well as early detection of infected individuals.

The actuaries are currently conducting an impact assessment with readily available data, based on the following assumptions:

- Despite the infection rate potentially reaching 60%-70%, 3ONE (Pty) Ltd has maintained an assumed ultimate infection rate of 40%, as no infection rates globally have yet reached close to 60%, and we therefore believe it is too early to amend this assumption. Should 60% or more prove accurate this would result in poorer outcomes than contemplated in this report. That being said, any additional financial impact would be expected to be limited by critical care capacity in hospitals.
- Through consideration of a number of new and alternative sources of information and research it is believed that the severity may not prove quite as high, as primarily based on analysis of experience in China, as these rates may not have fully contemplated mild and asymptomatic cases, which were not reported or measured.
- All patients listed as severe or worse would be expected to require hospitalisation and severity rates are differentiated by age such that they can be appropriately applied to varying scheme demographic profiles.
- It is expected that there is likely to be a lack of capacity in hospitals to cater for COVID-19 patients, particularly in respect of critical care and ICU for critical patients and therefore it is assumed that one third of hospitalisations will ultimately not be able to be accommodated due to capacity constraints.

Given the assumptions, together with the population demographics of WCMAS, the estimated cost per beneficiary over the period of the pandemic is approximately R 3 400, with an estimated cost per infected beneficiary of R 8 400. This compares to the previously communicated cost per beneficiary of R 6 100 and cost per infected beneficiary of R 15 300. As 24 438 beneficiaries participate on WCMAS this could result in an ultimate cost of approximately R 83.1 million.

Based on the current estimated impact, approximately 38.2 per every 1 000 WCMAS beneficiaries may be hospitalised and the mortality rate is expected to be 2.5 per 1 000 beneficiaries over the course of the pandemic. This would result in a total of approximately 930 hospitalisations and 60 deaths.

There is also expected to be a positive impact on the cost of non COVID-19 related claims through the implementation of lockdown and social distancing measures, as well as a reduction in the rate of elective procedures, general admissions and access to care. The impact of this is highly uncertain. However, until there is more clarity, 3ONE (Pty) Ltd has assumed that non-COVID-19 related claims will be reduced by 5% for May to July 2020.

There is also expected to be a relatively significant impact on the size of reserves, given the impact of COVID-19 on the economy and asset markets. Until there is further clarity on the potential impact thereof, 3ONE has assumed that any reduction in investment income and reserves has already been experienced by the Scheme. In particular, the unrealised loss to date is R 49.4 million.

There have been no other material facts or circumstances that have occurred between the reporting date and the date of approval of these financial statements that the Trustees consider should be brought to the members' attention.

7. INVESTMENTS IN AND LOANS TO PARTICIPATING EMPLOYERS OF MEMBERS OF THE MEDICAL SCHEME AND OTHER RELATED PARTIES

The Scheme holds no investment in participating employers of the Scheme members.

8. RELATED PARTY TRANSACTIONS

Refer to note 29 to the annual financial statements for related party disclosure and note 30 for Trustee remuneration.

9. MATTERS OF NON-COMPLIANCE FOR THE YEAR ENDED 31 DECEMBER 2019

The Scheme places high priority to meeting requirements set by the Medical Schemes Act of South Africa No. 131 of 1998, as amended and other legislation and regulations. In this regard, the Scheme subjects itself to internal audit as well as independent external audits to ensure compliance. Due to this approach, the Scheme does not focus on one area of compliance only, but on all areas that affect the Scheme and ensures compliance in this way.

The following are non-compliance with the Medical Schemes Act of South Africa No. 131 of 1998, as amended that arose during the year under review, even though the Scheme did not incur any regulatory penalties, sanctions or fines for any contraventions. The details of each matter of non-compliance is disclosed below:

Report of the Board of Trustees

9.1 INVESTMENTS IN ADMINISTRATOR, HOLDING COMPANY OF THE ADMINISTRATOR OR ANY EMPLOYER GROUP

In terms of Section 35(8)(a,c&d) of the Medical Schemes Act of South Africa No. 131 of 1998, as amended, a medical scheme shall not invest in the business of an administrator of a medical scheme or any holding company of an administrator or any related employer group. The Scheme has indirect underlying investments in unrelated listed administrators of medical schemes (MMI Group Ltd), amounting to 0.04% (2018: 0.1%), in unrelated holding companies of administrators (Glencore PLC) of 0.02% (2018: 0.1%) and in related listed employer groups of 0.92% (2018: 0.90%) (Anglo American PLC 0.86% (2018: 0.90%)) as part of total investments held through Unit Trust portfolios and Linked Fund policies. The Board of Trustees is of the opinion that in principal this non-compliance is not a risk to the Scheme since the Scheme is not related to any of the administrators in which investments are held and no direct influence is exercised by any of the employer groups by investing in these financial instruments.

9.2 BENEFIT OPTIONS IN DEFICIT

In terms of Section 33(2) of the Medical Schemes Act of South Africa No. 131 of 1998, as amended, each option shall be self-supporting in terms of membership and financial performance and be financially sound. The Board of Trustees believe that the Scheme continues to be adequately priced to meet claims expenditure and benefit obligations.

The Scheme generated a net health care deficit of R 40 516 709 (2018: R 29 552 852). Once regard is, however, given to supplementary investment and other net income, the Scheme generated a net operating deficit of R 14 055 296 (2018: R 138 221).

During the 2019 financial year, the following options generated net healthcare deficits and were not self-sustaining:

- Comprehensive - R 44 459 772 (2018: R 32 504 918)

The Scheme has excess reserves that provide a layer of protection against large membership risk profile changes.

9.3 LATE RECEIPT OF CONTRIBUTIONS

Section 26(7) of the Medical Schemes Act of South Africa No. 131 of 1998, as amended, requires membership contributions to be collected within three days of payment becoming due. Occasionally payments are received after the third day of the subsequent month for some of the employer groups.

If contributions are not collected as stipulated, the risk of not receiving it increases.

While some payments were not always received timeously, all commitments were met soon after due date. The credit control department follows up on outstanding amounts on a regular basis.

9.4 CLAIMS PAID IN EXCESS OF 30 DAYS OF RECEIPT

In terms of section 59(2) of the Medical Schemes Act of South Africa No. 131 of 1998, as amended, a medical scheme shall pay claims within 30 days of receipt thereof.

A small percentage of claims were not paid within 30 days as prescribed by the Act. Particularly between December and January the number of days between the receipt of a claim and the payment could amount to 38 days, causing the Scheme not to be fully compliant. The scheme normally performs month end runs on the second last business day of the month.

9.5. CLAIMS APPROVED MORE THAN 60 DAYS AFTER REQUEST FOR CORRECTION

In terms of Regulation 6(3) of the Medical Schemes Act of South Africa No. 131 of 1998, as amended, once an individual has been informed that his/her claim was rejected, the individual has 60 days to correct the claim information. Some claims were approved after the 60 days period has passed. In these instances management had used its discretion in favour of the member, where sufficient justification allowed, in the interest of treating customers fairly.

10. SIGNIFICANT EVENTS

Reportable irregularity

The Scheme's external auditors reported an irregularity in terms of Section 45(1) of the Auditing Profession Act, 2005 (No.26 of 2005) to the Independent Regulatory Board for Auditors. The irregularity relates to alleged fraudulent activities committed by a member of senior management. The alleged fraudulent activities included misuse of the Scheme's property, expenses incurred without the appropriate authorisation, non-compliance with the Scheme's internal procurement policies and theft of the Scheme's monetary assets.

The Scheme subsequently commissioned an independent forensic investigation on the matter and the investigation is not yet finalised. Over and above commissioning a forensic investigation the member of senior management has been suspended pending the outcome of the investigation. The Board of Trustees considers its continued success to be dependent on the consistent enforcement of, and adherence to, principles of the highest standard of corporate governance and ethics.

Report of the Board of Trustees

11. CORPORATE GOVERNANCE

11.1 AUDIT AND GOVERNANCE COMMITTEE

An Audit and Governance committee exists in accordance with the provisions of the Medical Schemes Act of South Africa No. 131 of 1998, as amended. The committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The committee consists of seven members of which three are members of the Board of Trustees.

In accordance with the provisions of the Act, the primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems and financial reporting practices and good corporate governance. The majority of the members, including the chairperson, should not be officers of the Scheme. The external auditors report formally to the committee on critical findings arising from audit activities.

The committee met on four occasions during the course of the year. The chairperson of the Scheme, the Principal Officer, the accountant and the external auditors attend all committee meetings and have unrestricted access to the chairperson of the committee.

11.2 REMUNERATION COMMITTEE

The committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and responsibilities and consists of four members who do not receive remuneration for attending meetings. Three of the committee members are members of the Board of Trustees.

The committee's primary objective is to develop, manage and monitor all remuneration and remuneration related matters by recommending appropriate remuneration values and strategies to the Board of Trustees for approval and by so doing to ensure the objectivity and credibility of the remuneration and bonus system (staff only), for the Board of Trustees, sub-committees, Principal Officer and other members of management and staff.

11.3 DISPUTES COMMITTEE

The committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and responsibilities and consists of three members. The members are not members of the Board of Trustees and only meet when a dispute arises that necessitates their meeting.

11.4 INVESTMENT COMMITTEE

The committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and responsibilities and consists of three members, supported by two senior staff members of the Scheme. Two of the committee members are members of the Board of Trustees.

Investment strategy

The Scheme's investment objectives are to maximize the return on its investments on a long term basis at minimal risk. The investment strategy takes into consideration the constraints imposed by legislation and the strategies of the Board of Trustees with the following mandate:

- achieve a return that exceeds consumer price inflation ("CPI") by 3.0% p.a (net of fees) over a three year period, but with low risk of losing capital over a 12 month period;
- the savings account trust funds are to be ring-fenced and invested separately in liquid funds and net returns on these funds are allocated to savings account balances of members;
- liquidity levels are maintained as required by the Scheme;
- investments are only made in highly rated institutions with moderate risk;
- investments are made in compliance with the regulations of the Medical Schemes Act of South Africa No. 131 of 1998, as amended; and
- risk assessments are performed with feedback to the Board of Trustees with recommendations on the risks identified.

11.5 ORGANISATIONAL INTEGRITY AND CODE OF ETHICS

The Board of Trustees confirms that, in line with its formal Code of Ethics, all Trustees, officers and employees subscribe to conducting their duties in discharging their obligations towards all stakeholders of the Scheme in a professional manner, always maintaining the highest standards of integrity and honesty and adherence to all applicable legislation and rules during the financial year currently under review.

No other event or item, other than the reportable irregularity mentioned in paragraph 10 of this report, has come to the attention of the Board of Trustees that indicates any material breakdown in effective organisational integrity and code of ethics.

Report of the Board of Trustees

11.6 TRUSTEE/BOARD COMMITTEES MEETING ATTENDANCE

The following schedule sets out the Board of Trustees and subcommittees meeting attendances:

Trustee / Member	Board of Trustees			Audit and Governance committee			Investment committee			Disputes committee			Remuneration committee		
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C
OA Maritz	11	11	11	4	4	3	4	4	2						
M Dugmore	11	11	8										1	1	1
AJ Nienaber	11	6	4	4	2	2	4	2	2						
HGR Schoeman	11	11	8												
JC de Carvalho	11	11	11												
KL Leripa	11	6	2												
PM Motubatse	11	11	5												
RA Mofokeng	11	11	10												
SN Makile	11	11	6												
TA Gloss	11	6	-												
TM Masike	11	11	8										1	1	1
CD Logan-Delagey	11	11	8										1	1	1
MH Pearson	11	11	8	4	4	3									
S Viljoen	11	11	8												
ZP Nkosi	11	6	2												
MP Barnes	11	6	1												
E Pretorius	11	6	-												
TS Lessing	11	6	4										1	1	1
JA de Jager	11	6	4												
S Matthews	11	2	-												
A Mazibuko	11	2	-												
E Buthelezi	11	2	-												
M Wenum				4	4	2									
AD de Jager				4	4	2									
AJ de Klerk				4	4	3									
Z Hammond				4	4	2									
NA Dickman							4	4	1						
M Botha										None	None	None			
E Wiese										None	None	None			
F Kruger										None	None	None			

A – Total number of meetings
B – Total number of meetings for which member was eligible
C – Actual number of meetings attended, including meetings attended on invitation.

Statement of Responsibility by the Board of Trustees

The Trustees are responsible for the preparation, integrity and fair presentation of the annual financial statements of Witbank Coalfields Medical Aid Scheme ("the Scheme"), comprising the statement of financial position at 31 December 2019 and the statements of comprehensive income, changes in funds and reserves and cash flows for the year then ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes required in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Medical Schemes Act of South Africa No. 131 of 1998, as amended ("the Act").

The Trustees consider that, in preparing the annual financial statements, they have used the most appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Trustees are satisfied that the information contained in the annual financial statements fairly presents the results of operations for the year and the financial position of the Scheme at year-end. The Trustees also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the financial statements.

The Trustees are responsible for ensuring that accounting records are maintained. The accounting records disclose, with reasonable accuracy, the financial position of the Scheme which enables the Trustees to ensure that the annual financial statements comply with the relevant legislation.

Witbank Coalfields Medical Aid Scheme operates in a well-established control environment which is well documented. This incorporates risk management and internal control procedures which are designed to provide reasonable but not absolute assurance that assets are safeguarded and the risk facing the business are adequately mitigated.

The Trustees have, with the support of the independent actuarial advisors, made an assessment of the ability of the Scheme to continue as a going concern and have no reason to believe, given its solvency position, and notwithstanding the financial loss sustained during the period of reporting, that the Scheme will not be a going concern in the year ahead.

The Audit and Governance committee functioned effectively throughout the year.

The Scheme's external auditors are responsible for auditing the fair presentation of the financial statements in terms of International Reporting Standards on Auditing in accordance with the applicable financial reporting framework of the Scheme.

Approval of financial statements

The financial statements set out on pages 20 to 60, which have been prepared on the going concern basis, were approved by the Board of Trustees on 03 June 2020 and were signed on their behalf by:

OA Maritz
Chairperson

M Dugmore
Vice-chairperson

M Anthony
Acting Principal Officer

Statement of Corporate Governance by the Board of Trustees

Witbank Coalfields Medical Aid Scheme is committed to the principles and practice of fairness, responsibility, transparency and accountability in all dealings with its stakeholders. Where practical, the Scheme strives to comply with the King IV Code of Corporate Governance. Reporting in terms of King IV is guided by the Council for Medical Schemes.

In meeting Corporate Governance requirements, the Scheme's management, Board of Trustees and sub-committees have access to governance experts as and when the need arises. This is deemed to be adequate for appropriately governing the affairs of the Scheme.

1. ETHICS

The industry experiences high levels of waste and abuse of members' benefits by certain healthcare professionals. There is also a high incidence of fraudulent claims as a result of collusion between healthcare professionals and, in some instances, members. This behaviour undermines the financial sustainability of the Medical Schemes Industry, and, as such, has a negative impact on all members. The Scheme therefore has stringent fraud policies in place and processes to prevent, detect and discipline any fraudulent activities.

The Scheme minimises the impact of this risk by adopting a zero-tolerance approach to fraud, waste and abuse. The Scheme has applied deterrent measures to curb unethical behaviour and reinforce the principles of ethical billing and claims behaviour during the provision of services to medical aid members.

The deterrent measures include:
- raising awareness about fraud, waste and abuse;
- applying abuse prevention tactics; and
- using analytical software to identify outlier behaviour.

The Scheme has stringent fraud policies and processes in place to prevent, detect and discipline any fraudulent activities. All investigations or interviews/interrogations related to suspected fraudulent acts are confidential and the identity of whistle blowers remain anonymous.

2. CORPORATE CITIZENSHIP

In terms of the King IV code on corporate governance, corporate citizenship is defined as the recognition that the Scheme is an integral part of the broader society in which it operates, affording the organisation standing as a juristic person in that society with rights but also responsibilities and obligations. It is also the recognition that the broader society is the licensor of the Scheme.

The Scheme acknowledges its responsibility for being a responsible and ethical corporate citizen and management and the Trustees make decisions with this in mind.

Stakeholder engagement

Stakeholder relationships are governed by contracts with the relevant parties and also by policies put in place to ensure that the Scheme staff, management and Board of Trustees are on par with the highest priority set to good stakeholder relationships. The Scheme enforces:
- regular communication with all stakeholder groups;
- adequate representation by major groups on the Scheme's Board of Trustees;
- queries are routed to the correct person with fast turnaround times and prompt resolution; and
- complaints received, from any stakeholder, is followed up on and escalated to management where necessary.

Responsible business practices

The Scheme is committed to responsible business practices to ensure the future success and sustainability of the Scheme by:
- employing competent, adequately trained staff to run and manage its day-to-day operations;
- maintaining the highest standards of ethics, honesty and integrity; and
- assessing the impact of its decisions on all relevant third parties.

During the period under review, the Scheme worked extensively on its marketing and sustainability strategies to ensure that it remains relevant and the scheme of choice for existing and potential members.

Due to the Scheme placing great value on its stakeholders and its corporate citizenship, extensive quality control procedures are in place along with staff and Trustee performance reviews and monitoring of complaints and queries from key stakeholders.

3. PRINCIPAL OFFICER

The Principal Officer's duties and responsibilities are governed by her Service Level Agreement in addition to the Act and the Scheme's Rules. She is contractually required to give the Scheme 30 days' notice in the event of resigning, but sufficient succession planning is in place to ensure that the position will not be vacant for extended periods of time.

The Principal Officer is employed in an executive capacity and is employed on a full-time basis by the Scheme. She does not hold other positions or memberships of other governing bodies outside the Scheme.

Statement of Corporate Governance by the Board of Trustees

4. BOARD OF TRUSTEES

The primary governing body of the Scheme is the Board of Trustees. Even though they delegate some of their functions to other committees in an appropriate delegation of authority framework, they remain the primary decision maker and the party where the ultimate responsibility rests for the proper functioning of the Scheme.

The Board of Trustees has the appropriate balance of knowledge, skills, experience, diversity and independence to adequately manage the affairs of the medical scheme and its members. The Trustees are proposed and elected by members of the Scheme and participating employers and are governed by an agreed Terms of Reference. The Trustees meet regularly and monitor the performance of the Scheme. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive. All the Trustees have access to the advice and services of the Principal Officer and, where appropriate, may seek independent professional advice at the expense of the Scheme.

The Board of Trustees believes that the delegation of authority framework contributes to the role clarity and the effective exercise of authority and responsibilities of the Board's duties. To assist the Trustees in the execution of their fiduciary duties, the following Board committees were in place:

- Audit and Governance committee;
- Remuneration committee;
- Disputes committee; and
- Investment committee.

Performance evaluations

The Board of Trustees are evaluated through a biennial review process whereby they are required to complete a set of questions pertaining to their functioning and performance. These are reviewed by a review committee who consists of the chairman of each of the Scheme's committees (Board of Trustees, Audit and Governance, Remuneration, Disputes and Investment committees) where after feedback and remedial actions, if any, are provided to the Board of Trustees.

Overall, the Board of Trustees and sub-committees were found to be fit and proper and functioning within their mandate. There were no remedial actions necessary as all members were found to be acting satisfactorily.

The governing body believes this process to be sufficient and efficient in evaluating its performance and motivating it to improve output.

Remuneration

As from 1 June 2012, Board of Trustees and sub-committee members are compensated for their time, input and the responsibilities that they bear. To qualify for these fees, committee members must complete all the required training and orientation courses defined by the Council for Medical Schemes and the Scheme's rules. The King IV report on Corporate Governance was taken into account in drafting the policy for remuneration of committee members.

Board of Trustees (voting members only), Audit and Governance, Remuneration and Investment committee members may be paid R 1 793 (2018: R 1 692) per meeting fully attended up to a maximum of 12 per annum. However, no fees will be paid for consulting service performed and not all Trustee and committee members exercise their right to remuneration due to alternative arrangements with their employers.

Chairpersons of committees may be paid R 2 689 (2018: R 2 537) per meeting fully attended. This is also applicable to the acting chairman at any particular meeting.

Committee members are paid travel costs at the standard AA rate for members who do not qualify for travel allowances through other institutions.

All remuneration paid to Trustee and committee members are detailed in note 30 of the financial statements.

Statement of Corporate Governance by the Board of Trustees

5. RISK MANAGEMENT

The Scheme faces inherent and business risks that must be identified, mitigated and/or managed to ensure that the Scheme is sustainable.

The Scheme's risk management processes include:
- management identifies risks on a continual basis;
- the Scheme has formal strategic planning processes;
- management is charged with putting appropriate controls in place to mitigate risks;
- the Audit and Governance committee performs quarterly reviews of risk assessments;
- an annual review is performed of internal policies and procedures; and
- a review of committee terms of reference is performed at least every three years.

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

The Scheme monitors the effectiveness of controls and resultant deficiencies (if any) by:
- maintaining monthly, quarterly, bi-annual and annual quality control processes;
- performing internal audit governed by the Audit and Governance committee; and
- conducting monthly Board of Trustees meetings, where queries and complaints from members are addressed.

No other event or item, other than the reportable irregularity mentioned in paragraph 10 of the Report of the Board of Trustees, has come to the attention of the Board of Trustees to indicate that there has been any material breakdown in the functioning of the key internal controls and systems during the year under review.

6. INVESTMENT STRATEGY

The Scheme's investment objectives are to maximize the return on its investments on a long term basis at minimal risk. The investment strategy takes into consideration the constraints imposed by legislation and the strategies of the Board of Trustees with the following mandate:
- achieve a return that exceeds consumer price inflation ("CPI") by 3.0% p.a (net of fees) over a three year period, but with low risk of losing capital over a 12 month period;
- savings account trust funds should be ring-fenced and invested separately in liquid funds and net returns on these funds are allocated to savings account balances of members;
- maintain liquidity levels as required by the Scheme;
- invest only in highly rated institutions with moderate risk;
- make investments in compliance with the regulations of the Act; and
- perform risk assessments with feedback to the Board of Trustees with recommendations on the risks identified.

7. INFORMATION TECHNOLOGY

The Scheme's information technology functionality is administered internally, under the guidance of scheme management. Critical functionality has been outsourced to a contractor who has sufficient skill and expertise in the Medical Schemes industry to maintain the IT systems to the required service levels. Scheme management have enforced stringent change management and cost control measures including structured incident logging with defined severity levels and agreed response resolution times.

This statement was approved by the Board of Trustees and is signed on their behalf by:

OA Maritz
Chairperson

M Dugmore
Vice-chairperson

M Anthony
Acting Principal Officer

03 June 2020

Report from the Audit and Governance Committee

This report is provided by the Audit and Governance committee appointed in respect of the 2019 financial year of Witbank Coalfields Medical Aid Scheme. The committee oversees the Scheme's financial reporting process on behalf of the Board of Trustees in terms of a delegation of authority framework. In fulfilling its oversight responsibilities, the Audit and Governance committee reviewed and discussed the audited financial statements and related schedules in the Annual Report with the Scheme's management, including:

- a discussion of the quality, not just the acceptability, of the accounting principles;
- the reasonableness of significant judgments; and
- the clarity of disclosures in the financial statements.

The Scheme discussed with the internal auditors and independent external auditor the overall scope and plans for their respective audits.

1. INDEPENDENT EXTERNAL AUDITOR

The Audit and Governance committee meets with the independent external auditor, with and without management present, to discuss the results of their examinations; their evaluations of the Scheme's internal control, including internal control over financial reporting, and the overall quality of the Scheme's financial reporting.

The Audit and Governance committee recognises the importance of maintaining the independence of the Scheme's independent external auditor, both in fact and appearance. The committee remains vigilant of any facts or circumstance that may arise that may cloud the auditor's independence and judgment and takes that into account in recommending re-engagement of the external auditor to the Board of Trustees.

Based on the above, the Audit and Governance committee has recommended to the Board of Trustees that PricewaterhouseCoopers Inc. be retained as the auditors of Witbank Coalfields Medical Scheme for the 2019 financial year. The firm and the audit partner has been the Scheme's external auditors since the 2013 financial year and the partner will not be rotated unless required by law or legislation due to the specialised nature of the industry that the Scheme operates in and the loss of knowledge and experience that this will have to effect.

The members of the Audit and Governance committee and the Board of Trustees believe that, due to external auditor's knowledge of the Scheme and of the medical scheme industry, it is in the best interests of the Scheme to continue retention of the firm to serve as the Scheme's independent external auditor. This decision has also been ratified by the Annual General Meeting of the Scheme held on 28 May 2019.

Any non-audit services that the Scheme may require is recommended for approval to the Board of Trustees by the Audit and Governance committee as and when the need arises. During the year under review, the Scheme did not require any non-audit services from the independent external auditors.

2. INTERNAL AUDIT

The internal audit function is performed by senior management of the Scheme and independence is maintained through the review of audit work being performed by a non-executive member of the Audit and Governance committee.

The committee is satisfied with the workings of the internal audit function, with the results from the tests performed and with the member of management charged with the responsibilities of the Chief Audit Executive. The lack of dependence of the function is adequately mitigated through the external review by a non-executive and by the fact that no reliance is placed on the function by the external auditors.

3. SENIOR MANAGEMENT

The Scheme has seen changes to the senior management team during the year under review, including the appointment of a new Principal Officer. These new appointees carry vast industry experience and/or the relevant educational credentials applicable to their positions. The Scheme is therefore facing no residual risk in relation to changes in senior management. All business-critical positions are filled. Specialised information technology, professional actuarial and legal skills have been sourced from competent contractors where necessary.

4. ANNUAL FINANCIAL STATEMENTS

The committee reviewed and discussed, together with management and the independent auditor the Scheme's audited financial statements for the year ended 31 December 2019, and the results of management's assessment of the effectiveness of the Scheme's internal control over financial reporting and the independent auditor's audit of internal control over financial reporting.

Relying on the reviews and discussions above, the committee recommends to the Board of Trustees, and the Board of Trustees approves, that the audited financial statements and related schedules be included in the Annual Report for the year ended 31 December 2019.

On behalf of the Audit and Governance committee:

M Wenum
Chairperson: Audit and Governance committee

03 June 2020

Independent Auditor's Report

To the Members of Witbank Coalfields Medical Aid Scheme

Report on the financial statements

Opinion

We have audited the financial statements of Witbank Coalfields Medical Aid Scheme (the Scheme), set out on pages 19 to 58, which comprise the statement of financial position as at 31 December 2019, and the statement of 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 the Scheme as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Scheme in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

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.

Key audit matter	How our audit addressed the key audit matter
Outstanding claims provision (IBNR) The outstanding claims provision of R26 444 000 at year-end, as described in Note 13 to the financial statements, is a provision recognised for the estimated cost of healthcare benefits that have been incurred prior to year-end, but that were only reported to the Scheme after year-end. The outstanding claims provision is calculated by the Scheme's actuaries which is reviewed by management and the Audit and Governance Committee and recommended to the Board of Trustees for approval. The Scheme's actuaries use an actuarial model, based on the Scheme's actual claim development patterns throughout the year, to project the year-end provision. This model applies the Chain Ladder Method ("CLM"). The claim service date, processing date and amount are used to derive claim development patterns. These historical patterns are then used to estimate the outstanding claims provision. We identified this to be a matter of most significance to the audit because of the uncertainty in the projected claims pattern. A change in the projected claims pattern can cause a material change to the amount of the provision.	We obtained an understanding from the Scheme's actuaries regarding the process to calculate the outstanding claims provision. The actuarial method applied by the Scheme is one that is generally applied within the medical scheme industry. We obtained the actual claims data from the members administration system covering the year ended 31 December 2019. For a sample of actual claims received by the Scheme in the 2019 financial year, we tested the accuracy of the services and process dates. No material inconsistencies were noted. We substantively tested a sample of claims against the relevant Scheme rules and assessed completeness of the schemes data. To assess the reasonableness of the Schemes actuaries' estimation process, we compared the actual claims result in the current year to the prior year provision. Based on our assessment, the estimation process was considered reasonable. We have evaluated management's experts by assessing their competence, capability, and objectivity and noted no aspects requiring further consideration. We also obtained the outstanding claims provision report from the Scheme's actuaries and assessed whether the inputs, assumptions, methodology and findings per the report were consistent with our testing above. Based on the results of our assessment we accepted the inputs, assumptions, methodology and findings as reasonable.

Risk Transfer Arrangements	
The Scheme entered into a risk transfer arrangement whereby the parties agreed that the Anglo Coal Highveld Hospital (“ACHH”) will render services to beneficiaries on the Yebomed option. The Scheme accounts for this capitation fee arrangement in accordance with International Financial Reporting Standard 4 - *Insurance Contracts*, which requires the Scheme to account for the cost it would have incurred to deliver the specified benefits to beneficiaries on the Yebomed option had it not entered into a capitation fee arrangement. Included in Note 17 (Net Claims Incurred) to the financial statements are premiums paid of R 45 337 491 with a corresponding recovery of R 46 675 216 recognised for the period ended 31 December 2019. The Scheme, with the assistance of its actuaries performed a valuation to determine the claims that Yebomed beneficiaries were expected to make in a fee for service environment given their demographic profile and benefits available to them. Refer to note 17 to the financial statements that sets out the assumptions applied by the actuary in determining the recoveries from the arrangement. The risk transfer arrangement was considered to be a matter of most significance to our current year audit due to the magnitude of the recoveries from the arrangement and the judgement applied in determining the assumptions used in the calculation of the recoveries from the risk transfer arrangement.	We evaluated the competence, capabilities and objectivity of the actuary and obtained an understanding of their work by inspection of their company profile and individual credentials and inquiring about their work performed and noted no aspects requiring further consideration. We evaluated the calculation of recoveries from the risk transfer arrangement and the assumptions used in the calculation by performing the following procedures: ● We compared the methodology and the approach used by the actuary to the previous year and found it to be consistent; ● We agreed the assumptions used by management’s expert to underlying documentation as outlined below, with immaterial differences noted: ○ Scheme benefits were agreed to the approved and communicated benefit schedules; ○ Monthly contributions were agreed to the approved and communicated benefits schedules; ○ Mining specific health demands, which are determined by the consolidated claims value per benefit category per member per month, were agreed to historical claims and also agreed the input data used by management’s expert for benchmarking to management’s schedules to assess accuracy; ○ Actual premiums paid were agreed to bank statement of the Scheme; and ○ Administration fees were agreed to the service level agreement. ● On a sample basis, we tested the data used by management’s expert in determining the recovery value by inspecting underlying documentation such as application and termination for new members, as well as member termination. No exceptions were noted; and ● We tested the mathematical accuracy of the calculation. Immaterial differences were noted.

Other Information

The Scheme's trustees are responsible for the other information. The other information comprises the information included in the document titled "*Witbank Coalfields Medical Aid Scheme Annual Financial Statements for the year ended 31 December 2019*". The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Scheme's Trustees for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Scheme's trustees.

- Conclude on the appropriateness of the Scheme's trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on Other Legal and Regulatory Requirements

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

Reportable Irregularities

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified a reportable irregularity in terms of the Auditing Profession Act. We have reported such matters to the Independent Regulatory Board for Auditors. The matter pertaining to the reportable irregularity has been described in note 33 to the financial statements.

Audit Tenure

As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that PricewaterhouseCoopers Inc. has been the auditor of Witbank Coalfields Medical Aid Scheme for *7* years.

The engagement partner, Stephan Eicker, has been responsible for Witbank Coalfields Medical Aid Scheme's audit for *7* years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Stephan Eicker
Registered Auditor
eMalahleni
04 June 2020

Statement of Financial Position as at 31 December 2019

	NOTES	2019 R	2018 R
ASSETS			
NON-CURRENT ASSETS			
Equipment and other assets	5	5 125 221	1 010 649
Right-of-use assets	6&12	54 581	-
Investment properties	7	15 041 861	9 754 675
Investments at fair value through other comprehensive income	8	440 836 143	448 397 183
		461 057 806	**459 162 507**
CURRENT ASSETS			
Trade and other receivables	9	17 703 752	17 383 793
Investments at fair value through other comprehensive income	8	240 620 636	227 430 148
Cash and cash equivalents	10	38 522 941	33 377 236
		296 847 329	**278 191 177**
Total Assets		**757 905 135**	**737 353 684**
FUNDS AND LIABILITIES			
MEMBERS' FUNDS			
Revaluation reserve		(15 163 336)	(19 156 780)
Accumulated funds		515 066 295	522 308 016
Total Funds		**499 902 959**	**503 151 236**
LIABILITIES			
NON-CURRENT LIABILITIES			
Retirement benefit obligation	11	2 696 880	2 940 360
CURRENT LIABILITIES			
Lease liabilities	12	57 327	-
Retirement benefit obligation	11	113 120	29 640
Outstanding claims provisions	13	26 444 000	23 471 000
Personal medical savings account liabilities	14	199 859 865	178 696 345
Trade and other payables	15	28 830 984	29 065 103
		255 305 296	**231 262 088**
Total Liabilities		**258 002 176**	**234 202 448**
Total Funds and Liabilities		**757 905 135**	**737 353 684**

Statement of Comprehensive Income

	NOTES	2019 R	2018 R
RISK CONTRIBUTION INCOME	16	401 872 825	356 168 949
RELEVANT HEALTHCARE EXPENDITURE			
Risk claims incurred	17	(397 777 387)	(358 333 996)
Accredited managed care: management services	17	(6 022 817)	(5 404 964)
Third party claim recoveries	17	535 139	2 372 879
Net claims incurred		(403 265 065)	(361 366 081)
Risk transfer arrangement fees	17	(45 337 491)	(42 560 989)
Recoveries from risk transfer arrangement	17	46 675 216	44 453 485
Net income on risk transfer arrangement		1 337 725	1 892 496
Gross healthcare result		**(54 515)**	**(3 304 636)**
Broker fees		(32 625)	(89 553)
Net credit impairment losses	18	(61 337)	(42 154)
Administration fees and other operative expenses	19	(40 368 232)	(26 116 509)
Net healthcare result		**(40 516 709)**	**(29 552 852)**
OTHER INCOME			
Investment income	20	42 783 825	40 015 843
Rental income from investment property		4 694 473	4 544 829
Sundry income	21	636 000	675 315
		48 114 298	45 235 987
OTHER EXPENDITURE			
Asset management fees		(3 413 659)	(3 397 536)
Direct operating expenses incurred in the rental of investments property		(7 661 973)	(2 980 941)
Interest paid on members' savings account liabilities		(10 577 253)	(9 442 879)
		(21 652 885)	(15 821 356)
Deficit for the year		**(14 055 296)**	**(138 221)**
OTHER COMPREHENSIVE INCOME			
Realised gain on disposal of fair value investments		6 821 562	7 482 064
Unrealised profit/(loss) on revaluation of investments		3 993 444	(26 638 844)
Other comprehensive income for the year		**10 815 006**	**(19 156 780)**
Total comprehensive deficit for the year		**(3 240 290)**	**(19 295 001)**

Statement of Changes in Funds and Reserves

	OTHER RESERVES R	ACCUMULATED FUNDS R	TOTAL MEMBERS' FUNDS R
BALANCE AT 01 JANUARY 2018	**-**	**522 446 237**	**522 446 237**
Deficit for the year	-	(138 221)	(138 221)
Other comprehensive income	(19 156 780)	-	(19 156 780)
Total comprehensive deficit for the year	**(19 156 780)**	**(138 221)**	**(19 295 001)**
Balance at 31 December 2018	**(19 156 780)**	**522 308 016**	**503 151 236**
Opening balance as previously reported	(19 156 780)	522 308 016	503 151 236
Change in accounting policy			
IFRS 16 adjustment	-	(7 987)	(7 987)
BALANCE AT 01 JANUARY 2019 AS RESTATED	**(19 156 780)**	**522 300 029**	**503 143 249**
Deficit for the year	-	(14 055 296)	(14 055 296)
Other comprehensive income	10 815 006	-	10 815 006
Total comprehensive deficit for the year	**10 815 006**	**(14 055 296)**	**(3 240 290)**
Realised profit on investments transferred to retained income	(6 821 562)	6 821 562	-
Balance at 31 December 2019	**(15 163 336)**	**515 066 295**	**499 902 959**

Statement of Cash Flows

	NOTES	2019 R	2018 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		402 500 701	343 024 357
Cash paid to suppliers and employees		(417 515 707)	(359 991 500)
Cash used in operations	22	(15 015 006)	(16 967 143)
Interest paid on savings balances		(10 577 253)	(9 442 879)
Net cash from operating activities		**(25 592 259)**	**(26 410 022)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to equipment and other assets	5	(5 016 348)	(460 559)
Proceeds on disposal of equipment	5	23 501	5 120
Additions to investment properties	7	(5 751 525)	(107 544)
Purchase of investments at fair value through other comprehensive income		(47 814 442)	-
Proceeds on disposal of investments at fair value through other comprehensive income		53 000 000	(19 761 729)
Purchase of right-of-use assets	6	(148 148)	-
Asset management fees		(3 413 659)	(3 397 536)
Rentals received		(2 967 500)	1 563 888
Interest received on investments at fair value through OCI		35 532 626	31 885 811
Dividends received		7 244 119	8 127 351
Net cash from investing activities		**30 688 624**	**17 854 802**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment on lease liabilities		49 340	-
Total cash movement for the year		**5 145 705**	**(8 555 220)**
Cash at the beginning of the year		33 377 236	41 932 456
Total cash at end of the year	10	**38 522 941**	**33 377 236**

Accounting Policies

1. GENERAL INFORMATION

Witbank Coalfields Medical Aid Scheme ("the Scheme") is a medical scheme registered in terms of the Medical Schemes Act No. 131 of 1998, as amended.

The financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Trustees on 03 June 2020.

The following are the significant principal accounting policies applied in the preparation of these financial statements and are consistent with those for the previous year, except for the implementation of IFRS 16.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS"), and interpretations of those standards as adopted by the International Accounting Standards Board (IASB), and in the manner required by the Medical Schemes Act of South Africa No. 131 of 1998, as amended.

The financial statements have been prepared on the historic cost convention, except for investments which are reflected at fair value. They are presented in Rands, which is the Scheme's functional currency.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Scheme's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.24.

2.2 EQUIPMENT AND OTHER ASSETS

An item of equipment and other assets is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the Scheme, and the cost of the item can be measured reliably.

Equipment and other assets is reflected at historic cost less accumulated depreciation and accumulated impairments. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with the item will flow to the Scheme and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is charged on the straight-line basis over the estimated useful lives of items of equipment and other assets after taking into account the assets' residual values. The following are the estimated useful lives of equipment and other assets:

Item	Depreciation method	Average useful life
Motor vehicles	Straight line	5 years
Office equipment	Straight line	4 years
Computer equipment	Straight line	3 years
Mailroom equipment	Straight line	5 years
Generator	Straight line	10 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Maintenance and repairs, which neither materially add to the value of assets, nor appreciably prolong their useful lives, are charged against surplus or deficit.

Surpluses and deficits on disposal of equipment and other assets are determined by comparing the proceeds with the carrying amount and are recognised within other operating income/sundry expenses in the statement of comprehensive income.

2.3 INVESTMENT PROPERTIES

Investment properties are recognised as assets when, and only when, it is probable that the future economic benefits that are associated with the investment properties will flow to the enterprise, and the cost of the investment properties can be measured reliably.

Accounting Policies

2.3 INVESTMENT PROPERTIES (CONTINUED)

Investment properties are held to earn rental income and for capital appreciation and are initially recognised at cost. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment properties, the carrying amount of the replaced part is derecognised.

Cost model

Investment properties are carried at historical cost less accumulated depreciation less any accumulated impairment losses.

Depreciation is charged on the straight-line basis over the estimated useful life of the property after taking into consideration the asset's residual value as follows:

Item	Depreciation method	Average useful life
Airconditioners	Straight line	6 years
Lifts	Straight line	15 years
Partitioning and electrical	Straight line	10 years

Depreciation on developed buildings was seized from the 2010 financial year due to the management believing that the building's value is not decreasing. Land is not depreciated.

The residual values and useful lives of the assets are reviewed on an annual basis.

Register of investment properties and all investments

A register of all investment properties and investments is available for inspection at the registered office of the Scheme.

2.4 IMPAIRMENT OF NON-FINANCIAL 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.

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in surplus or deficit.

2.5 FINANCIAL INSTRUMENTS

Financial assets:

- amortised cost; or
- classified as at fair value through other comprehensive income.

Financial liabilities:

- amortised cost.

Note 23, financial instruments and risk management, presents the financial instruments held by the Scheme based on their specific classifications.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the Scheme are presented below:

2.5.1 NON-DERIVATIVE FINANCIAL ASSETS AT AMORTISED COST

Classification

Non-derivative financial assets consisting of trade and other receivables (refer note 9), excluding when applicable prepayments, and cash and cash equivalents (refer note 10) are classified as financial assets subsequently measured at amortised cost.

Accounting Policies

2.5 FINANCIAL INSTRUMENTS (CONTINUED)

They have been classified in this manner because the contractual terms of these receivables give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the Scheme's business model is to collect the contractual cash flows on these loans.

Recognition and measurement

Receivables are recognised when the Scheme becomes a party to the contractual provisions of the relevant receivable. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Interest income is calculated using the effective interest method, and is included in surplus or deficit in investment income.

Impairment

Insurance receivables carried at amortised cost

For trade and other receivables, of which the majority represents insurance receivables, the Scheme does not apply the impairment guidelines outlined in IFRS 9, as insurance receivables are not included in the scope of IFRS 9. The accounting policy for impairments as applied in the previous period still applies.

The Scheme assesses at the end of each reporting period whether there is objective evidence that a financial asset was impaired. A financial asset was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset that could be reliably estimated.

For trade and other receivables the amount of the loss was measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in the statement of comprehensive income.

If in a subsequent period the amount of the impairment loss decreased, and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

Non-insurance receivables carried at amortised cost

The Scheme assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Scheme measures the loss allowance at an amount equal to lifetime expected credit losses (lifetime ECL) when there has been a significant increase in credit risk since initial recognition. If the credit risk on a loan has not increased significantly since initial recognition, then the loss allowance for that loan is measured at 12 month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a receivable has increased significantly since initial recognition, the Scheme compares the risk of a default occurring on the receivable as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The Scheme considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on a receivable is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the Scheme has reasonable and supportable information that demonstrates otherwise.

Accounting Policies

2.5 FINANCIAL INSTRUMENTS (CONTINUED)

By contrast, if a receivable is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the receivable has not increased significantly since initial recognition.

The Scheme regularly monitors the effectiveness of the criteria used to identify if there has been a significant increase in credit risk and ensures that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

2.5.2 DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Classification

The Scheme holds certain investments in bonds and debentures which are classified as subsequently measured at fair value through other comprehensive income (refer note 8).

They have been classified in this manner because the contractual terms of these debt instruments give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the objectives of the Scheme's business model is achieved by both collecting the contractual cash flows on these instruments and by selling them.

Recognition and measurement

These debt instruments are recognised when the Scheme becomes a party to the contractual provisions. They are measured, at initial recognition, at fair value plus transaction costs, if any.

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

Impairment

The Scheme recognises a loss allowance for expected credit losses on all debt instruments measured at fair value through other comprehensive income. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective instruments.

The Scheme assesses, on a forward looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

2.5.3 NON-DERIVATIVE FINANCIAL LIABILITIES AT AMORTISED COST

Classification

Payables (refer notes 13, 14 and 15) are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

Payables are recognised when the Scheme becomes a party to the contractual provisions and are measured, at initial recognition, at fair value plus transaction costs, if any.

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Interest expense, calculated on the effective interest method, is included in surplus or deficit in other expenditure - interest paid.

Payables expose the Scheme to liquidity risk and interest rate risk. Refer to note 23 for details of risk exposure and management thereof.

Accounting Policies

2.5 FINANCIAL INSTRUMENTS (CONTINUED)

2.5.4 DERECOGNITION

Financial assets

The Scheme derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Scheme neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Scheme recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Scheme retains substantially all the risks and rewards of ownership of a transferred financial asset, the Scheme continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The Scheme derecognises financial liabilities when, and only when, the Scheme obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit.

2.5.5 OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the counterparty.

2.6 CASH AND CASH EQUIVALENTS

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.7 LEASES

2.7.1 LEASES SUBSEQUENT TO 1 JANUARY 2019

The Scheme assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

Scheme as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the Scheme is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. For these leases, the Scheme recognises the lease payments as an operating expense (note 19) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Details of leasing arrangements where the Scheme is a lessee are presented in note 12, leases (Scheme as lessee).

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Scheme uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed lease payments, including in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the Scheme under residual value guarantees;
- the exercise price of purchase options, if the Scheme is reasonably certain to exercise the option;
- lease payments in an optional renewal period if the Scheme is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses (notes 12 & 19).

Accounting Policies

2.7 LEASES (CONTINUED)

The lease liability is presented as a separate line item on the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in other expenditure - interest paid.

The Scheme remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the Scheme will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- there has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in surplus or deficit if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets

Right-of-use assets are presented as a separate line item on the statement of financial position.

Lease payments included in the measurement of the right-of-use assets comprise the following:

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the Scheme incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated on a straight-line basis over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Scheme expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

For right-of-use assets which are depreciated over their useful lives, the useful lives are determined consistently with items of the same class of equipment and other assets. Refer to the accounting policy for equipment and other assets for details of useful lives.

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately.

The depreciation charge for each year is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

2.7.2 LEASES PRIOR TO 1 JANUARY 2019

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

Accounting Policies

2.8 STRUCTURED ENTITIES

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Scheme has certain of its investments in other funds (investee funds), which are investments in unconsolidated structured entities. The Scheme invests in investee funds whose objectives range from achieving medium- to long-term capital growth. The investee funds are managed by unrelated asset managers and apply various investment strategies to accomplish their respective investment objectives.

2.9 PROVISIONS

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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money, where material, and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

If the Scheme has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

2.10 OUTSTANDING CLAIMS PROVISION

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

Claims handling expenses are not separately accounted for as this service is provided by die administrator and a fixed fee is paid for the full administration service, including claims handling.

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 provision for outstanding claims since the effect of the time value of money is not considered material.

2.11 LIABILITIES AND RELATED ASSETS UNDER THE 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 deficiency in income for the year.

2.12 PERSONAL MEDICAL SAVINGS ACCOUNTS

The personal medical savings account 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 IFRS 9 and is initially measured at fair value and subsequently at amortised cost using the effective interest method. The insurance component is recognised in accordance with IFRS 4.

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 No. 131 of 1998, as amended, balances standing to the credit of members are refundable in terms of Regulation 10 of the Act.

Advances on savings contributions are funded from the Scheme's funds and the Scheme will assess the advances for impairment.

The personal medical savings accounts are invested in fixed deposits and deposits held at call with banks in terms of the rules of the Scheme. These monies are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Accounting Policies

2.13 EMPLOYEE BENEFITS

2.13.1 SHORT-TERM EMPLOYEE BENEFITS

The cost of short-term employee benefits, salaries and bonuses, are recognised in the period in which the related service was delivered.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonuses if the Scheme has a present legal or constructive obligation to pay amounts as a result of past service provided by the employee and the obligation can be estimated reliably.

2.13.2 DEFINED CONTRIBUTION PLANS

Employees all belong to a defined contribution pension fund. Contributions to the fund are recognised in the statement of comprehensive income in the period in which they are incurred.

2.13.3 POST-RETIREMENT MEDICAL BENEFITS

On retirement the staff employed by the scheme as at 31 January 2011, will receive a medical aid subsidy equal to 50% of their contribution for the remainder of their lives. Surviving spouses of employees entitled to the subsidy will continue to receive the benefit. The benefit will cease upon the death of the surviving spouse. Payments in terms of this liability has been effective from 1 January 2012.

The post retirement medical aid contribution benefit liability is measured at the present value of the amount payable for the remaining lives of the beneficiaries and their surviving spouses. Employees become eligible at retirement age of 60. The liability is regularly valued by a recognised actuary.

An actuarial valuation is performed every second year to determine the value of the liability and the liability is unfunded. For the year ended 31 December 2019 the Projected Unit Credit discounted cash flow method was used.

2.14 MEDICAL INSURANCE CONTRACTS

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

2.15 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 shown before the deduction of broker service fees and other acquisition costs.

2.16 RELEVANT HEALTHCARE EXPENDITURE

Relevant healthcare expenditure consists of net claims incurred and net income or expense from risk transfer arrangements.

2.17 REIMBURSEMENTS FROM THE ROAD ACCIDENT FUND ("RAF")

The Scheme grants assistance to its members in defraying expenditure incurred in connection with rendering of any relevant health service. Such expenditure may be in connection with a claim that is also made to the RAF, by the member, administered in terms of the Road Accident Fund Amendment Act, 2005. If members are reimbursed by the RAF, they are obliged contractually to cede that payment to the Scheme to the extent of healthcare expenses incurred by the Scheme on behalf of the members. This contractual obligation may be in the form of a separate agreement or by an acknowledgement of a clause to this effect in the rules of the Scheme.

The Scheme has no direct relationship with the RAF. Receivables are therefore raised for amounts ceded by members once the Scheme is notified of the amount to be paid over and the RAF has indicated that the claim is ready for payment because it is only at this time that the asset can be reliably measured. Receivables from the RAF are still tested for possible impairment despite the RAF’s notification of payment of the claim. To the extent that the asset cannot be reliably measured, the disclosure requirements for contingent assets are considered. IAS 37 states that contingent assets are only recognised once it becomes virtually certain that an inflow of economic benefits will arise. The asset and the related income are recognised in the financial statements of the period in which the change occurs.

Where material, recoveries from third parties are disclosed separately in the statement of comprehensive income as part of the net claims incurred subtotal.

Accounting Policies

2.18 RISK CLAIMS INCURRED

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

Net risk claims incurred represent claims incurred net of discounts received, recoveries from members for co-payments and personal medical savings accounts. Net risk claims incurred represent risk claims incurred after taking into account recoveries from third parties.

2.19 MANAGED CARE - MANAGEMENT SERVICE FEES

These expenses represent amounts paid or payable to third party administrators, related parties and other third parties for managing the utilisation, costs and quality of healthcare services to the Scheme. These fees are expensed as incurred.

Accredited managed healthcare services are part of healthcare expenditure as they directly impact on the delivery of cost effective and appropriate healthcare benefits to be members of the Scheme.

2.20 RISK TRANSFER ARRANGEMENTS

Contracts entered into by the Scheme with third party service providers under which the Scheme is compensated for losses/claims (through the provision of services to members) on one or more contracts issued by the Scheme and that meet the classification requirements of insurance contracts are classified as risk transfer arrangements (reinsurance contracts). Only contracts that give rise to a significant transfer of insurance risk are accounted for as risk transfer arrangements. Risk transfer premiums/fees are recognised as an expense over the indemnity period on a straight-line basis. If applicable, a portion of risk transfer premiums/fees is treated as pre-payments.

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

Claims recoveries relating to risk transfer arrangements are calculated on the basis of what it would have cost the Scheme had the arrangement not been in place.

Assets relating to risk transfer arrangements include balances due under risk transfer arrangements for outstanding risk claims provisions and claims reported not yet paid. Amounts recoverable under risk transfer arrangements are estimated in a manner consistent with the risk claims provisions, claims reported not yet paid and settled claims associated with the risk transfer arrangement considering the terms of the contract. The amounts recoverable under such contracts are recognised in the same year as the related claim.

Amounts recoverable under risk transfer arrangements are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, because of an event that occurred after its initial recognition that the Scheme may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Scheme will receive under the risk transfer arrangement.

2.21 ALLOCATION OF INCOME AND EXPENDITURE TO BENEFIT OPTIONS

The following items are directly allocated to benefit options:
- Risk contributions;
- Risk claims incurred;
- Net income/(expense) on risk transfer arrangement fees;
- Managed care - management services;
- Administration fees;
- Broker fees; and
- Interest paid in terms of the rules of the Scheme on personal medical savings account monies.

The remaining items are apportioned based on the number of members on each option:
- Other administration expenditure;
- Investment income;
- Other income; and
- Other expenditure.

2.22 INVESTMENT INCOME

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

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

Rental income from investment properties is recognised in the statement of comprehensive income on a contractual basis over the lease term. All leases with tenants are linked to the Consumer Price Index (CPI) and straight-lining is therefore not possible.

Accounting Policies

2.23 UNALLOCATED FUNDS

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

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

2.24 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

2.24.1 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

Outstanding claims provision

There are some sources of uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for such claims. Initial estimates are made by the Scheme's executive management relating to the best estimate calculations on reported claims and derived as the claims process develops. All estimates are revised and adjusted at year end by executive management.

Testing and validation is also performed by independent actuaries.

Refer to note 13 for further details relating to the provision for outstanding risk claims.

Impairment of receivables

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimation techniques used in measuring determining the credit loss allowance is further detailed in note 23.2.1, which also sets out key sensitivities to changes in these elements.

Notes to the Financial Statements

3. NEW STANDARDS AND INTERPRETATIONS

3.1 STANDARDS AND INTERPRETATIONS EFFECTIVE AND ADOPTED IN THE CURRENT YEAR

In the current year, the Scheme has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IFRS 16 Leases	01 January 2019	This standard requires lessees to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, excluding an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the impact is minimal. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In accordance with the requirements of the standard the Scheme will be required to capitalise its operating rental payments as a right-of-use asset. Refer to note 4.1 for the impact analysis.

3.2 STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

The Scheme has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Scheme's accounting periods beginning on or after 01 January 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Definition of a business - Amendments to IFRS 3	01 January 2020	The amendment: • confirms that a business must include inputs and a processes, and clarifies that the process must be substantive and that the inputs and process must together significantly contribute to creating outputs. • narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and • adds a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. Impact is currently being assessed
• Presentation of Financial Statements: Disclosure initiative - Amendment to IAS 1	01 January 2020	The amendment clarifies and aligns the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Impact is currently being assessed
• Accounting Policies, Changes in Accounting Estimates and Errors: Disclosure initiative	01 January 2020	The amendment clarifies and aligns the definition of 'material' and provides guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Impact is currently being assessed
• IFRS 17 Insurance Contracts	01 January 2021	The IFRS establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. Impact is currently being assessed

Notes to the Financial Statements

4. CHANGES IN ACCOUNTING POLICY

The financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards.

4.1 APPLICATION OF IFRS 16 LEASES

In the current year, the scheme has adopted IFRS 16 Leases (as issued by the IASB in January 2016) with the date of initial application being 01 January 2019. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC 27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in the accounting policy for leases. The impact of the adoption of IFRS 16 on the Scheme's financial statements is described below.

The Scheme has applied the practical expedient available in IFRS 16 which provides that for contracts which exist at the initial application date, an entity is not required to reassess whether they contain a lease. This means that the practical expedient allows an entity to apply IFRS 16 to contracts identified by IAS 17 and IFRIC 4 as containing leases; and to not apply IFRS 16 to contracts that were not previously identified by IAS 17 and IFRIC 4 as containing leases.

IFRS 16 has been adopted by applying the modified retrospective approach, whereby the comparative figures are not restated. Instead, cumulative adjustments to retained earnings have been recognised in retained earnings as at 01 January 2019.

LEASES WHERE SCHEME IS LESSEE

Short-term leases

Under IFRS 16 lessees may elect not to recognise assets and liabilities for leases with a lease term of 12 months or less. In such cases a lessee recognises the lease payments in profit or loss on a straight-line basis over the lease term.

The exemption is required to be applied by class of underlying assets.

The Scheme undertook the following at the date of initial application for leases which were previously recognised as operating leases:

- recognised a lease liability, measured at the present value of the remaining lease payments, discounted at the Scheme's incremental borrowing rate at the date of initial application.
- recognised right-of-use assets measured on a lease by lease basis, at either the carrying amount (as if IFRS 16 applied from commencement date but discounted at the incremental borrowing rate at the date of initial application) or at an amount equal to the lease liability adjusted for accruals or prepayments relating to that lease prior to the date of initial application.

The Scheme applied IAS 36 to consider if these right-of-use assets are impaired as at the date of initial application.

As an exception to the above, no adjustments were made on initial application of IFRS 16 for leases previously classified as operating leases:

- for which the underlying asset is of low value. From the date of initial application, these leases are accounted for in accordance with paragraph 6 of IFRS 16 by recognising the lease payments on a straight-line basis or another systematic basis which is more representative of the pattern of benefits consumed;

The Scheme applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases in terms of IAS 17. Where necessary, they have been applied on a lease by lease basis:

- when a portfolio of leases contained reasonably similar characteristics, the Scheme applied a single discount rate to that portfolio;
- leases which were expiring within 12 months of 01 January 2019 were treated as short term leases, with remaining lease payments recognised as an expense on a straight-line basis or another systematic basis which is more representative of the pattern of benefits consumed;
- initial direct costs were excluded from the measurement of right-of-use assets at the date of initial application.
- hindsight was applied where appropriate. This was specifically the case for determining the lease term for leases which contained extension or termination options.

IMPACT ON FINANCIAL STATEMENTS

On transition to IFRS 16, the Scheme recognised R 148 148 as right-of-use assets and R 57 327 as lease liabilities and R 7 987 as a prior year adjusting through accumulated funds.

When measuring lease liabilities, Scheme discounted lease payments using its incremental borrowing rate at 01 January 2019. The weighted average rate applied is 10%.

Notes to the Financial Statements

5. EQUIPMENT AND OTHER ASSETS

	2019			2018		
	Cost R	Accumulated depreciation R	Carrying value R	Cost R	Accumulated depreciation R	Carrying value R
Motor vehicles	564 317	(118 291)	446 026	138 161	(89 580)	48 581
Office equipment	4 145 339	(1 520 460)	2 624 879	1 610 292	(1 290 886)	319 406
Computer equipment	4 761 139	(3 321 487)	1 439 652	3 439 922	(2 925 148)	514 774
Generator	1 267 594	(652 930)	614 664	758 238	(630 350)	127 888
Total	**10 738 389**	**(5 613 168)**	**5 125 221**	**5 946 613**	**(4 935 964)**	**1 010 649**

RECONCILIATION OF EQUIPMENT AND OTHER ASSETS - 2019

	Opening balance R	Additions R	Additions through amalgamation* R	Disposals R	Depreciation R	Total R
Motor vehicles	48 581	426 156	-	-	(28 711)	446 026
Office equipment	319 406	2 536 841	(1 796)	-	(229 572)	2 624 879
Computer equipment	514 774	1 543 996	(14 625)	-	(604 493)	1 439 652
Generator	127 888	509 356	-	-	(22 580)	614 664
	1 010 649	**5 016 349**	**(16 421)**	**-**	**(885 356)**	**5 125 221**

RECONCILIATION OF EQUIPMENT AND OTHER ASSETS - 2018

	Opening balance R	Additions R	Disposals R	Depreciation R	Total R
Motor vehicles	48 881	-	-	(300)	48 581
Office equipment	537 831	52 383	(388)	(270 420)	319 406
Computer equipment	603 928	408 176	(2 051)	(495 279)	514 774
Generator	130 660	-	-	(2 772)	127 888
	1 321 300	**460 559**	**(2 439)**	**(768 771)**	**1 010 649**

6. RIGHT-OF-USE ASSETS

	2019			2018		
	Cost R	Accumulated depreciation R	Carrying value R	Cost R	Accumulated depreciation R	Carrying value R
Office equipment	280 701	(226 120)	54 581	-	-	-

RECONCILIATION OF RIGHT-OF-USE ASSETS - 2019

	Opening balance R	Additions R	Depreciation R	Total R
Office equipment	-	148 148	(93 567)	54 581

OTHER DISCLOSURES

The Scheme adopted IFRS 16 for the first time in the current financial period. Comparative figures have been accounted for in accordance with IAS 17. The information presented in this note for right-of-use assets therefore only includes the current period.

Notes to the Financial Statements

	2019 R	2018 R

6. RIGHT-OF-USE ASSETS (CONTINUED)

The following amounts are included in profit or loss:

	2019 R	2018 R
Expenses on short term leases included in operating expenses	106 488	176 614

7. INVESTMENT PROPERTIES

	2019			2018		
	Cost R	Accumulated depreciation R	Carrying value R	Cost R	Accumulated depreciation R	Carrying value R
Land and buildings	11 783 286	(1 647 474)	10 135 812	9 239 230	(1 647 474)	7 591 756
Partitioning, electrical and fittings	2 219 372	(1 057 249)	1 162 123	2 229 692	(2 065 747)	163 945
Lift	2 572 553	(458 324)	2 114 229	1 486 448	(359 227)	1 127 221
Airconditioners	2 693 812	(1 064 115)	1 629 697	3 639 434	(2 767 681)	871 753
Total	**19 269 023**	**(4 227 162)**	**15 041 861**	**16 594 804**	**(6 840 129)**	**9 754 675**

RECONCILIATION OF INVESTMENT PROPERTIES - 2019

	Opening balance R	Additions R	Depreciation R	Total R
Land and buildings	7 591 756	2 544 056	-	10 135 812
Partitioning, electrical and fittings	163 945	1 057 249	(59 071)	1 162 123
Lift	1 127 221	1 086 105	(99 097)	2 114 229
Airconditioners	871 753	1 064 115	(306 171)	1 629 697
	9 754 675	**5 751 525**	**(464 339)**	**15 041 861**

RECONCILIATION OF INVESTMENT PROPERTIES - 2018

	Opening balance R	Additions R	Depreciation R	Total R
Land and buildings	7 591 756	-	-	7 591 756
Partitioning, electrical and fittings	117 550	107 544	(61 149)	163 945
Lift	1 226 318	-	(99 097)	1 127 221
Airconditioners	1 283 098	-	(411 345)	871 753
	10 218 722	**107 544**	**(571 591)**	**9 754 675**

OTHER INFORMATION

Investment properties comprise the land and buildings on the corner of OR Tambo Road and Susanna Street, erf 5091 and erf 286, Emalahleni (Witbank) and the vacant land in Susanna Street, erf 5090.

The fair value of the properties as valued by the Board of Trustees on 31 December 2019 is R 50 million (2018: R50 million). The Board of Trustees has assessed that the residual value of the building is greater than the current carrying value and therefore no depreciation has been processed.

Direct operating expenses arising from the property that generated rental income amount to R 2 733 989 (2018: R 2 938 590) and which did not generate rental income amount to R 4 927 984 (2018:R 42 351).

Notes to the Financial Statements

8. INVESTMENTS

AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 R	2018 R
Segregated Multi Class portfolio	163 602 411	162 681 057
Linked fund policies	277 233 732	285 716 126
Money market instruments	240 620 636	227 430 148
	681 456 779	**675 827 331**

	2019 R	2018 R
The underlying investments are as follows		
Cash	334 288 742	306 606 692
Interest-bearing investments and investments in property	12 149 957	25 078 949
Interest-bearing investments, including bonds	186 486 348	192 424 972
Listed equities	148 531 732	151 716 718
	681 456 779	**675 827 331**

SPLIT BETWEEN NON-CURRENT AND CURRENT PORTIONS

	2019 R	2018 R
Non-current assets	440 836 143	448 397 183
Current assets	240 620 636	227 430 148
	681 456 779	**675 827 331**

FAIR VALUE INFORMATION

Refer to note 23.1, valuation of financial instruments, for details of valuation policies and processes.

	2019 R	2018 R
Fair value reconciliation		
Balance at the beginning of the year	675 827 331	675 222 382
Additions and interest capitalised	47 814 442	149 761 633
Disposals at cost	(53 000 000)	(130 000 000)
Unrealised gain/(loss) on revaluation of investments transferred directly to reserves	8 739 650	(26 638 848)
Realised gains on disposal of investments	2 075 356	7 482 164
Balance at the end of the year	**681 456 779**	**675 827 331**

9. TRADE AND OTHER RECEIVABLES

	2019 R	2018 R
Insurance receivables		
Contributions outstanding	17 083 485	16 854 261
Recoveries from members	234 956	13 982
Carrying amount beginning of the period	(21 584)	(8 337)
(Increase)/reversal of provision	(88 801)	(13 247)
Provision for contribution debtor impairment losses	(110 385)	(21 584)
Service provider balances	86 464	76 751
Total insurance receivables	**17 294 520**	**16 923 410**

Notes to the Financial Statements

9. TRADE AND OTHER RECEIVABLES (CONTINUED)

	2019 R	2018 R
Non-insurance receivables		
Savings plan recoveries	-	291 781
Carrying amount beginning of the period	(102 881)	(180 757)
Reversal of provision	102 881	77 876
Provision for non-insurance receivables impairment losses	-	(102 881)
Amounts paid in advance	74 891	94 620
Rentals due	234 675	77 197
Electricity deposits	99 666	99 666
Total non-insurance receivables	**409 232**	**460 383**
Total trade and other receivables	**17 703 752**	**17 383 793**

EXPOSURE TO CREDIT RISK

Trade and other receivables inherently expose the Scheme to credit risk, being the risk that the Scheme will incur financial loss if customers fail to make payments as they fall due.

Gross contributions outstanding includes members with credit balances.

All members' contributions outstanding and savings plan advances older than 90 days are provided as historical experience indicates that receivables that are past due beyond 90 days are generally not recoverable. All outstanding recoveries from members for co-payments from 90 to 120 days are provided for, with historical experience these types of receivables that are immediately due are generally not recoverable.

Recoveries from providers pertain mainly to fraudulent debtors and these debtors are provided for on an individual basis subject to frequency of payments received from these debtors. The Scheme monitors payments monthly and follows up in cases of non-payment.

Age analysis of trade and other receivables	2019		2018	
	Gross carrying amount R	Impairment R	Gross carrying amount R	Impairment R
Insurance receivables				
Not past due	17 168 298	(110 385)	16 859 666	(21 584)
Past due 30 days	41 342	-	42 194	-
Past due 60 days	24 530	-	8 008	-
Past due 90 days	6 557	-	12 090	-
More than 120 days	164 178	-	23 036	-
Non-insurance receivables				
Not past due	202 151	-	249 998	-
Past due 30 days	194 836	-	49 369	-
Past due 60 days	12 212	-	17 070	-
Past due 90 days	-	-	17 893	-
More than 120 days	33	-	228 934	(102 881)
Total	**17 814 137**	**(110 385)**	**17 508 258**	**(124 465)**

Notes to the Financial Statements

9. TRADE AND OTHER RECEIVABLES (CONTINUED)

RECONCILIATION OF IMPAIRMENT

The following table shows the movement in the impairment for trade and other receivables:

	2019 R	2018 R
Balance at beginning of the year	124 465	189 094
Increase in provision	166	21 385
Unused amounts reversed	(14 246)	(86 014)
Closing balance at end of the year	**110 385**	**124 465**

The Scheme establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The provision is based on the difference between the carrying amount and the amount recoverable from the counterparty.

The allowance for impairment losses at 31 December 2019 relates to:

- all contributions receivable older than 90 days;
- 100% of claims paid after resignation; and
- 100% of suppliers and members with debit balances.

The credit quality of trade and other receivables that are neither past due nor impaired can be assessed with reference to historical information about counterparty default. It can further be based on the fact that the Scheme is a closed scheme and active members' subscriptions being guaranteed by participating employers. The Trustees therefore believe that the credit quality is high.

Based on the credit quality of trade and other receivables and their historical default rates, the Scheme believes that the impairment allowance is appropriate.

FAIR VALUE OF TRADE AND OTHER RECEIVABLES

The fair value of trade and other receivables approximates their carrying amounts due to the short-term maturities of these assets.

10. CASH AND CASH EQUIVALENTS

	2019 R	2018 R
Current accounts	31 698 066	18 011 632
Call accounts	6 824 875	15 365 604
	38 522 941	**33 377 236**

The effective interest rate on the bank account was 1.00% (2018: 1.00%).

The carrying amount of the cash and cash equivalents approximates the fair values due to the short-term maturities of these balances.

11. POST-RETIREMENT BENEFITS

POST-RETIREMENT MEDICAL AID BENEFIT

On retirement the staff employed by the Scheme as at 31 January 2011, will receive a medical aid subsidy equal to 50% of their contribution per month for the remainder of their lives. Surviving spouses of employees entitled to the subsidy will continue to receive the benefit. The benefit will cease upon the death of the surviving spouse. The actuarial valuation to determine the liability is performed every second year and the liability is unfunded.

The post-retirement medical aid benefit liability is measured at the present value of the amount payable for the remaining lives of the beneficiaries and their surviving spouses. Employees become eligible for the medical aid subsidy on normal retirement at any age after 60.

Notes to the Financial Statements

11. POST-RETIREMENT BENEFITS (CONTINUED)

Movements in the post-retirement medical aid benefit for the year are as follows

	2019 R	2018 R
Balance at the beginning of the year	2 970 000	3 427 223
Expenses in respect of the current year		
Service cost	171 000	180 000
Interest cost	333 000	355 000
Benefits paid	(31 000)	(27 900)
Remeasurements	(633 000)	(964 323)
	2 810 000	**2 970 000**

NET EXPENSE RECOGNISED IN SURPLUS OR DEFICIT

	2019 R	2018 R
Employment costs	129 000	429 323

Split between non-current and current portions

	2019 R	2018 R
Non-current liabilities	2 696 880	2 940 360
Current liabilities	113 120	29 640
	2 810 000	**2 970 000**

If the assumed future rate of medical inflation was 1% higher, the liability would have been R 446 790 higher (2018: R324 945) higher.

The five year summary of the post-retirement medical aid benefit liability as at 31 December 2019 is as follows:

	2019 R	2018 R	2017 R	2016 R	2015 R
Present value of liability	2 810 000	2 970 000	3 427 223	2 731 000	2 749 887
Actuarial gain/(loss)	633 000	964 323	(253 951)	365 041	136

KEY ASSUMPTIONS USED

An actuarial valuation was performed by independent valuators, 3One Actuaries (Pty) Ltd, on 31 December 2019, using the Projected Unit Credit discounted cashflow method. The projections contained in the valuation was consistent with those used in the prior year. The key assumptions used were:

	2019	2018
Discount rates used	11.62 %	11.27 %
Health care cost inflation	8.92 %	9.14 %
Long-term price inflation	7.42 %	7.64 %
Expected increase in salaries	8.92 %	9.14 %
Retirement age	63	63
Mortality rates	Pre-retirement: SA85-90 (Light) Post-retirement: PA (90)	

12. LEASE LIABILITY

Details pertaining to leasing arrangements, where the Scheme is lessee are presented below:

	2019 R	2018 R
Current liabilities	57 327	-

The Scheme adopted IFRS 16 during the current financial year. Office equipment relating to the lease of a photocopier was the only qualifying asset affected by IFRS 16. There are other leases for office equipment, but due to their low value they are still being recognised as operating leases in accordance with the previous requirements of IAS 17.

Notes to the Financial Statements

12. LEASE LIABILITY (CONTINUED)

	2019 R	2018 R
The maturity analysis of lease liabilities is as follows:		
Within one year	84 804	
Two to five years	195 897	
	280 701	

13. OUTSTANDING CLAIMS PROVISIONS

RECONCILIATION OF OUTSTANDING CLAIMS PROVISIONS - 2019

	Balance at beginning of the year R	Payments in respect of prior year R	Subtotal: (Under)/over provision in prior year R	Adjustments for current year R	Balance at end of the year R
Not covered by risk transfer arrangements	23 471 000	(25 506 977)	(2 035 977)	28 479 977	26 444 000

RECONCILIATION OF OUTSTANDING CLAIMS PROVISIONS - 2018

Not covered by risk transfer arrangements	16 482 000	(16 751 547)	(269 547)	23 740 547	23 471 000

	2019 R	2018 R
Analysis of outstanding claims provision		
Estimated gross claims	32 182 040	28 499 269
Less: Estimated savings plan claims	(5 738 040)	(5 028 269)
	26 444 000	**23 471 000**

	2019 %	2018 %
Expected claims ratio		
The expected claims ratio assumed for the benefit year is in respect of direct benefits for the previous period, were as follows:		
Comprehensive	5.63	5.96
Midmas	13.06	5.82
Ntsika	9.24	5.10

The Scheme does not carry any risk in terms of the capitation fee agreement and therefore did not make a provision for those claims under the IBNR provision.

An actuarial valuation was performed by independent valuators, 3One Actuaries (Pty) Ltd for the year ended 31 December 2019, using the Chain Ladder Method ("CLM") in the calculation of the Scheme's IBNR provision.

The significant assumptions used in the valuation process is outlined below:

Process used to determine the assumptions

The sources of data used as inputs for the assumptions incorporated claims payment information with service dates during 2018 and 2019, with payment dates to 30 April 2020.

The claims payment information during 2018 enhances the reliability of results by allowing for incorporation of historic claims payment run-off trends.

The sources of information used as inputs for the assumptions was provided by the Scheme's IT system administrator and Ntsika claims data was provided by the co-administrator. The data has not been audited. However, reasonability checks were performed that provide comfort that the data is sufficiently accurate for the purposes of this exercise.

Notes to the Financial Statements

13. OUTSTANDING CLAIMS PROVISIONS (CONTINUED)

The following are examples of the data checks were performed:
- detection of unrealistic/impossible values (eg service dates in the future);
- reasonability of total claims amounts relative to historic values;
- claims amounts relative to independent sources (eg management accounts); and
- ensuring completeness of the data.

Assumptions

The primary assumption is that previous claims run-off patterns are representative of current run-off expectations.

The final payment run in 2019 took place on 19 December. This created a backlog where a number of claims that would normally be paid in December were only paid later. It was assumed that this backlog was fully caught up by 29 February 2020 and incorporated in the data used.

Methodology

The CLM uses run-off triangles to calculate the expected outstanding claims amount. The primary assumption is that patterns in claims activities and the rate of claims payment in the past will continue to be seen in the future.

In addition to a point-estimate of IBNR, a distribution of results based on a stochastic statistical process named bootstrapping. 200 simulated estimates were produced. This allows for an enhanced understanding of the probable range of IBNR results in addition to the calculation of a reasonable estimate.

The final recommended IBNR provision was selected at the 75th percentile of the simulated IBNR estimates. This allows for a degree of conservatism such that there is only expected to be a 25% probability that the ultimate claims experience exceeds that allowed for in the IBNR provision.

All IBNR calculations were performed per high level benefit category (in-hospital, out of hospital and medication). This enhances the accuracy of results as these groupings are expected to exhibit different claims run-off experience. The IBNR provisions for each of these cohort groups was then rolled-up to determine the total provision for the Scheme.

Sensitivities to changes in key variables

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

There has not been a material change to assumptions that have a material impact on the estimates when compared against the assumptions used at the last valuation.

The actuaries have considered the possible sensitivity of the IBNR estimate to change by considering the distribution of the 200 estimates produced through the bootstrapping process employed.

The table below compares the IBNR provision to the 1st and 99th percentile of simulated IBNR estimates

Percentile of simulated estimates

	IBNR estimate R	Difference to recommended provision R	Difference %
1st percentile (bottom-end)	26 137 848	(306 152)	(1.2)%
IBNR provision	**26 444 000**	**-**	**- %**
99th percentile (top-end)	26 993 698	549 698	2.1 %

If volatility is in line with that observed since the beginning of 2018, there is a 99% probability that the ultimate claims experience for 2019 will prove, at worst, R 549 698 (2018: R 3 076 530) worse than that incorporated in the recommended IBNR provision. This represents 0.2% of the total claims estimate for 2019.

The experience since the beginning of 2018 may, however, not capture the full possible degree of claim run-off volatility.

Notes to the Financial Statements

14. PERSONAL MEDICAL SAVINGS ACCOUNT LIABILITIES

	2019 R	2018 R
Balance at beginning of the year	178 696 345	159 642 235
Net movement for the year		
Savings contributions received	114 300 283	101 135 159
Transfers from other schemes in terms of Regulation 10(4)	1 034 852	758 924
Interest and other income earned on trust monies invested	10 577 253	9 442 879
Claims paid out of savings	(93 640 619)	(84 362 598)
Transfers to other schemes in terms of Regulation 10(4)	(26 500)	(382 696)
Refunds on death or resignation in terms of Regulation 10(5)	(11 081 749)	(7 537 558)
	21 163 520	19 054 110
Balance at end of the year	**199 859 865**	**178 696 345**

The personal medical savings account liability contains a demand feature in terms of Regulation 10 of the Medical Schemes Act that any credit balance on a member's personal medical savings account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit option and then enrols in another benefit option or medical scheme without a personal medical savings account or does not enrol in another medical scheme.

Interest is paid in terms of the rules of the Scheme on the personal medical savings account on a monthly basis, based on the effective interest method.

It is estimated that claims to be paid out of members' savings accounts in respect of claims incurred in 2019, not recorded, will amount to R 5 738 040 (2018: R 5 028 269) (refer to note 13).

Advances on personal medical savings accounts are funded by the Scheme and are included in trade and other receivables (refer to note 9). The Scheme does not charge interest on advances on personal medical savings accounts.

Unclaimed monies are written back to scheme funds to the extent that it has prescribed in terms of the Prescription Act 69 of 1969.

15. TRADE AND OTHER PAYABLES

	2019 R	2018 R
Insurance payables		
Reported claims not yet paid	22 979 737	23 102 457
Contributions received in advance	1 895 207	1 676 439
Stale cheques	664 983	697 330
Unallocated deposits	420	-
Total insurance payables	**25 540 347**	**25 476 226**
Non-insurance payables		
Amounts received in advance	-	5 013
Employee related payables	824 000	1 241 000
Accruals	1 253 199	1 692 723
Audit fees	1 171 541	610 907
VAT	41 897	39 234
Total non-insurance payables	**3 290 637**	**3 588 877**
Total trade and other payables	**28 830 984**	**29 065 103**

FAIR VALUE OF TRADE AND OTHER PAYABLES

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

Notes to the Financial Statements

16. RISK CONTRIBUTION INCOME

	2019 R	2018 R
Gross contributions received per registered rules	516 173 108	457 304 108
Savings contributions received*	(114 300 283)	(101 135 159)
Risk contribution income	**401 872 825**	**356 168 949**

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

For disaggregation of revenue per scheme option, refer to note 36.

17. NET CLAIMS INCURRED

	2019 R	2018 R
Current year claims per registered rules	394 804 387	351 344 996
Movement in outstanding claims provision		
Under provision in prior year	28 479 977	269 547
Adjustments for current year	(25 506 977)	6 719 453
	2 973 000	6 989 000
Movement in risk transfer arrangements		
Risk transfer arrangements premiums paid	45 337 491	42 560 989
Recoveries from risk transfer arrangements	(46 675 216)	(44 453 485)
	(1 337 725)	(1 892 496)
Claims incurred excluding claims incurred in respect of risk transfer arrangements	**396 439 662**	**356 441 500**
Managed care - management services fees (refer to note 17.1)	6 022 817	5 404 964
Third party claim recoveries	(535 139)	(2 372 879)
	401 927 340	**359 473 585**

* Claims are paid on behalf of members from their personal medical savings accounts in terms of Regulation 10(3).

Risk transfer arrangements

A risk transfer arrangement is defined by IFRS 4 as an insurance contract issued by one insurer (the reinsurer) to compensate another insurer (the cedant) for losses on one or more contracts issued by the cedant. The cost the Scheme would have incurred to deliver the specified benefits had it not entered into the capitation agreement primarily represents the Scheme's exposure to its members, as the capitation agreement cannot absolve the Scheme from its responsibility towards its members. This "cost" is disclosed as claims incurred.

The Scheme would have incurred this cost (had it not entered into the capitation agreement) to deliver the specified benefits and as such it represents the Scheme's recovery in kind from the managed healthcare provider. This recovery in kind, of cost incurred, is disclosed as recoveries from risk transfer arrangements.

The Scheme entered into a risk transfer arrangement (capitation contract) whereby the parties agreed that the Anglo Coal Highveld Hospital render services to beneficiaries on the Yebomed option. A fixed fee was paid monthly to ACHH per beneficiary. The following services were rendered to beneficiaries:

- GP consultations;
- acute and chronic medication;
- pathology as required;
- radiology as required;
- conservative dentistry;
- optometry; and
- hospitalisation as required.

The Yebomed option is fully capitated through a comprehensive Health Maintenance Organisation providing a full range of health services as well as health care. The Scheme contracted actuaries to perform a valuation on capitation fee arrangement to determine whether it is in the members' best interest or not. They determined the claims that Yebomed beneficiaries were expected to make in a fee for service environment given their demographic profile and benefits available to them. The assumptions used to determine the recovery from the arrangement were:

- generally lower claiming expectations for a healthy, low-income mining group;
- mining-specific health demands; and
- higher primary health costs due to proximity of facilities and resulting ease of access.

Notes to the Financial Statements

17. NET CLAIMS INCURRED (CONTINUED)

17.1 MANAGED CARE - MANAGEMENT SERVICES FEES

	2019 R	2018 R
Specialist, hospital referrals and pre-authorisation	2 488 680	2 237 820
Disease management	2 159 640	1 877 107
Pharmacy benefit management	856 909	783 983
Oncology benefit management	517 588	506 054
	6 022 817	**5 404 964**

18. NET CREDIT IMPAIRMENT LOSSES

	2019 R	2018 R
Insurance receivables		
Contributions that are not collectable	79 344	(5 922)
Members' and service providers' portions not recoverable	-	19 170
Non-insurance receivables		
Advances from members' savings accounts that are not recoverable	(14 080)	(41 966)
Previous impairment losses recovered	(3 927)	(5 962)
Irrecoverable tenant income	-	76 834
	61 337	**42 154**

19. ADMINISTRATION FEES AND OTHER OPERATIVE EXPENSES

	2019 R	2018 R
Actuarial fees	343 875	-
Annual general meeting and committee meetings	221 667	31 669
Association fees	147 195	39 974
Audit fees	1 484 107	678 785
Board of Trustees remuneration and considerations	140 014	129 922
Bank charges	276 035	236 556
Computer expenses	3 850 312	989 260
Consulting fees	2 835 835	407 747
Debt collection fees	8 741	34 165
Depreciation, amortisation and impairments	978 922	768 771
Donations	34 940	-
Employee costs	18 536 790	14 872 578
Fidelity insurance	28 434	28 434
Insurance	176 921	121 184
Levies	42 360	23 119
MVA collection fees	20 188	285 544
Marketing	2 623 460	2 533 422
Medikredit administration fee	1 259 083	1 156 357
Operating leases - office equipment	106 488	176 614
Other expenses	15 024	-
Principal officer's conference and travel costs	372 382	35 549
Principal officer's remuneration	4 026 791	2 299 330
Printing, stationery and postage	352 857	253 256
Professional indemnity insurance	44 487	44 487
Registrar's levies	1 331 385	308 203
Repairs and maintenance	80 448	56 142
Telephone, postage and fax	503 761	325 297
Travel, accommodation and conferences	172 020	65 883
Universal healthcare: administration costs	353 710	214 261
	40 368 232	**26 116 509**

19.1 OPERATING LEASE - OFFICE RENT

	2019 R	2018 R
The Scheme as lessee		
Minimum lease payments under one-year lease recognised as an expense	1 127 713	871 201

Notes to the Financial Statements

20. INVESTMENT INCOME

	2019 R	2018 R
Investments at fair value through other comprehensive income		
Dividend income	7 244 119	8 127 351
Interest income	34 725 227	30 687 567
Investments at amortised cost		
Cash and cash equivalents - interest received	807 399	1 198 244
Profit on sale of asset	7 080	2 681
Total investment income	**42 783 825**	**40 015 843**

21. SUNDRY INCOME

	2019 R	2018 R
Over utilisation levy	636 000	675 315

22. CASH USED IN OPERATIONS

	2019 R	2018 R
Deficit for the year	(14 055 296)	(138 221)
Adjustments for		
Depreciation	1 443 262	1 340 362
Profit on disposal of equipment	(7 080)	-
Impairment losses	61 337	(64 629)
Investment income	(42 776 745)	(38 182 195)
Impairment losses	10 577 253	9 442 879
Movements in retirement benefit assets and liabilities	(160 000)	(457 223)
Changes in working capital		
(Increase)/decrease in trade and other receivables	2 586 204	(16 128 157)
Increase/(decrease) in trade and other payables	3 179 539	1 271 332
Increase/(decrease) in outstanding claims provision	2 973 000	6 989 000
Increase/(decrease) in members' savings account liability	21 163 520	18 959 709
	(15 015 006)	**(16 967 143)**

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

23.1 FAIR VALUES AND FINANCIAL INSTRUMENTS

The fair value of publicly traded financial instruments held as available-for-sale securities is based on quoted market prices at the reporting date. The face value less estimated credit adjustments for assets and liabilities with maturities less than one year is assumed to approximate their fair values.

Level 1: Quoted market price (unadjusted in an active market for an identical instrument).

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

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

Notes to the Financial Statements

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

23.1.1 CATEGORIES OF FINANCIAL ASSETS

2019

	Notes	Fair value levels	Fair value through other comprehen-sive income R	Amortised cost R	Total carrying amount R	Fair value R
Investments at fair value						
Cash	8	1	334 288 742	-	334 288 742	334 288 742
Listed equities	8	1	148 531 732	-	148 531 732	148 531 732
Interest-bearing investments and investments in property	8	1	12 149 957	-	12 149 957	12 149 957
Interest-bearing investments, including bonds	8	1	186 486 348	-	186 486 348	186 486 348
Trade and other receivables	9	3	-	409 232	409 232	298 847
Cash and cash equivalents	10	1	-	38 522 941	38 522 941	38 522 941
			681 456 779	**38 932 173**	**720 388 952**	**720 278 567**

2018

	Notes	Fair value levels	Fair value through other comprehen-sive income R	Amortised cost R	Total carrying amount R	Fair value R
Investments at fair value						
Cash	8	1	306 606 692	-	306 606 692	306 606 692
Listed equities	8	1	151 716 718	-	151 716 718	151 716 718
Interest-bearing investments and investments in property	8	1	25 078 949	-	25 078 949	25 078 949
Interest-bearing investments, including bonds	8	1	192 424 972	-	192 424 972	192 424 972
Trade and other receivables	9	3	-	460 383	460 383	460 383
Cash and cash equivalents	10	1	-	33 377 236	33 377 236	33 377 236
			675 827 331	**33 837 619**	**709 664 950**	**709 664 950**

23.1.2 CATEGORIES OF FINANCIAL LIABILITIES

2019

	Notes	Fair value levels	Amortised cost R	Total carrying amount R	Fair value R
Trade and other payables	15	3	3 290 637	3 290 637	3 290 637
Outstanding claims provision	13	2	26 444 000	26 444 000	26 444 000
Lease liability	12	-	57 327	57 327	57 327
			29 791 964	**29 791 964**	**29 791 964**

2018

	Notes	Fair value levels	Amortised cost R	Total carrying amount R	Fair value R
Trade and other payables	15	3	3 588 877	3 588 877	3 588 877
Outstanding claims provision	13	2	23 471 000	23 471 000	23 471 000
			27 059 877	**27 059 877**	**27 059 877**

23.2 FINANCIAL RISK MANAGEMENT

The Scheme's activities expose it to a variety of financial risks, including the effects of changes in the equity market, foreign currency exchange rates and interest rates. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments, which the Scheme holds to meet its obligations to its members.

Risk management and investment decisions are carried out by the Investment committee, under the guidance and policies approved by the Board of Trustees. The Investment committee identifies and evaluates financial risks associated with the Scheme's investment portfolio. The Investment committee provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and policies around the investment of excess funds. The Board of Trustees approves all of these written policies.

Notes to the Financial Statements

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

This section discusses the Scheme's risk management policies. The measurement of expected credit losses uses the information and approaches that the Scheme uses to manage risk.

23.2.1 CREDIT RISK

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a financial loss to the Scheme.

The Scheme's principle financial assets subject to credit risk are investments, cash and cash equivalents and trade and other receivables. The Scheme doesn't have any significant credit risk exposure to any single counter party or any group of counter parties having similar characteristics. The Scheme defines counterparties as having similar characteristics if they are related entities.

The credit risk is primarily attributable to its trade and other 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.

Credit risk on liquid funds are limited to high credit quality financial institutions with high credit ratings assigned by international credit-rating agencies.

The amounts presented in the statement of financial position are net of allowances for impaired receivables.

The maximum exposure to credit risk is presented in the table below:

			2019			2018	
	Notes	Carrying amount R	Impairment R	Amortised cost / fair value R	Carrying amount R	Impairment R	Amortised cost / fair value R
Investments at fair value through other comprehensive income	8	681 456 779	-	681 456 779	675 827 331	-	675 827 331
Trade and other receivables	9	409 232	-	409 232	563 264	(102 881)	460 383
Cash and cash equivalents	10	38 522 941	-	38 522 941	33 377 236	-	33 377 236
		720 388 952	**-**	**720 388 952**	**709 767 831**	**(102 881)**	**709 664 950**

ASSET CLASS	TOP 5 HOLDINGS - 31 DECEMBER 2019	Ratings (long term)	% of portfolio
Current accounts	Nedbank Ltd	Baa3	100.0
	Total		**100.0**
Money Market	Nedbank Ltd	Baa3	21.4
	Investec Bank Ltd	Baa3	16.3
	FirstRand Bank Ltd	Baa3	22.9
	The Standard Bank of South Africa Ltd	Baa3	17.0
	ABSA Bank Ltd	Baa3	20.8
	Other		1.6
	Total		**100.0**
	TOP 5 HOLDINGS - 31 DECEMBER 2018		
Current accounts	Nedbank Ltd	Baa1	100.0
	Total		**100.0**
Money Market	Investec Bank Ltd	Baa1	8.3
	Nedbank Ltd	Baa1	22.4
	The Standard Bank of South Africa Ltd	Baa1	23.7
	FirstRand Bank Ltd	Baa1	22.1
	ABSA Bank Ltd	Baa1	23.5
	Total		**100.0**

Notes to the Financial Statements

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Global long-term rating scale (Moody's)

Baa Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

23.2.2 LIQUIDITY RISK

Ultimate responsibility for liquidity risk management rests with the Board of Trustees, which has built an appropriate liquidity risk management framework for the management of the Scheme's short, medium and long-term funding and liquidity management requirements.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities; the availability of funding through liquid holding cash positions with various financial institutions ensures that the Scheme can fund the day-to-day operations. The Scheme manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The financial liabilities posing a liquidity risk are outstanding claims provision and trade and other payables.

The maturity profile of contractual cash flows of non-derivative financial liabilities, and financial assets held to mitigate the risk, are presented in the following table. The cash flows are undiscounted contractual amounts.

2019

	Notes	0 - 1 Month R	2 - 3 Months R	4 - 9 Months R	10 - 12 Months R	Contractual cash flows R	Carrying amount R
Current liabilities							
Lease liabilities		-	57 327	-	-	57 327	57 327
Outstanding claims provision	13	-	26 444 000	-	-	26 444 000	26 444 000
Finance payables	15	3 290 637	-	-	-	3 290 637	3 290 637
Total liabilities		**3 290 637**	**26 501 327**	**-**	**-**	**29 791 964**	**29 791 964**

2018

	Notes	0 - 1 Month R	2 - 3 Months R	4 - 9 Months R	10 - 12 Months R	Contractual cash flows R	Carrying amount R
Current liabilities							
Outstanding claims provision	13	19 472 000	2 647 391	1 101 996	249 613	23 471 000	23 471 000
Financial payables	15	2 646 079	161 228	781 570	-	3 588 877	3 588 877
Total Liabilities		**22 118 079**	**2 808 619**	**1 883 566**	**249 613**	**27 059 877**	**27 059 877**

23.2.3 INTEREST RATE RISK

The Scheme's investment policy during the year under review was to hold most of investments in interest bearing instruments. The Scheme's investments were therefore exposed to changes in the market interest rates.

Except for the Scheme's investments in interest-bearing instruments, cash and cash equivalents also expose the Scheme to interest rate risk.

Notes to the Financial Statements

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

INTEREST RATE PROFILE

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

	Notes	Carrying amount 2019 R	Carrying amount 2018 R
Variable rate instruments:			
Assets			
Interest-bearing investments and investments in property	8	12 149 957	25 078 949
Interest-bearing investments, including bonds	8	186 486 348	192 424 972
Cash and cash equivalents	8 & 10	372 811 683	339 983 928
		571 447 988	**557 487 849**

INTEREST RATE SENSITIVITY ANALYSIS

The following sensitivity analysis has been prepared using a sensitivity rate which is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. All other variables remain constant. The sensitivity analysis includes only financial instruments exposed to interest rate risk which were recognised at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

	2019		2018	
Increase or decrease in rate by 100 basis points	**Increase R**	**Decrease R**	**Increase R**	**Decrease R**
Impact on profit or loss	5 714 480	(5 714 480)	5 574 878	(5 574 878)

23.2.4 PRICE RISK

The Scheme is exposed to price risk because of investments held by the Scheme which are classified as at fair value through profit or loss or at fair value through other comprehensive income. The Scheme was not exposed to commodity risk. To manage its price risk arising from investments, the Scheme diversifies its portfolio. Diversification of the portfolio is done by the asset manager in accordance with the mandate set by the Scheme.

PRICE RISK SENSITIVITY ANALYSIS

The sensitivity analysis has been determined based on the exposure to price risks at the reporting date on investments. The analysis assumes that all other variables remain constant. The method remained consistent with the prior period.

If the equity indexes had been 3% lower, the Scheme's surplus and accumulated funds for the year would have been unaffected as the equity investments are classified as investments at fair value through other comprehensive income. The revaluation reserve would reduce by R 15 million (2018: R 20 million) as a result of the change in the market value of instruments.

23.3 CAPITAL RISK MANAGEMENT

The Scheme manages its capital in order to maintain the capital requirements of the Medical Schemes Act 131 of 1998, as amended.

The Medical Schemes Act 131 of 1998, as amended, requires a minimum ratio of accumulated funds expressed as a percentage of gross annual contribution income to be 25%.

Notes to the Financial Statements

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

		2019 R	2018 R
Total members' funds per statement of financial position		499 902 959	503 151 236
Revaluation reserve	15	15 163 336	19 156 780
Accumulated funds per Regulation 29		**515 066 295**	**522 308 016**
Gross contributions		516 173 108	457 304 108
Solvency ratio (accumulated funds / gross contributions		99.79 %	114.21 %

24. STRUCTURED ENTITIES

The Scheme's investments in investee funds are subject to the terms and conditions of the respective investee fund's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investee funds. The investment manager makes investment decisions after extensive due diligence of the underlying fund, its strategy and the overall quality of the underlying fund's manager. All of the investee funds in the investment portfolio are managed by portfolio managers who are compensated by the respective investee funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of the fund's investment in each of the investee funds. These investments are included in investments at fair value through other comprehensive income as in the statement of financial position.

The exposure of the investments in investee funds at fair value is disclosed in the following table:

Investee fund

	Net asset value in investee fund R
Coronation Medical Scheme	135 884 187
Investec Stable Money Market	46 867 663
Prudential Medical Scheme Policy	141 349 545

The strategy of the investee funds is to protect the capital of investors in an absolute sense, whilst providing income in excess of short-term bank deposit rates. The Scheme is not exposed to any further risks of financial loss beyond the fair value of its share in the investee funds as outlined in the preceding table.

25. FIDELITY COVER

In accordance with the Rules of the Scheme, the fidelity cover at 31 December 2019 amounts to R 800 000 (2018: R 800 000). The cover is provided under a group Fidelity Policy covering the scheme.

26. TAXATION

The Scheme is deemed to be a benefit fund in terms of section 10(1)(d) of the Income Tax Act of 1062 and therefore exempt from taxation.

27. LIABILITY ADEQUACY TESTS

The liability adequacy test was considered and concluded not to be material. This is due to the fact that current estimates of future cash flows relating to the recognised liability equals the recognised liability as a result of the settlement of the recognised liability taking place within four months of report date.

28. COMMITMENTS

CONTINGENT ASSETS

Claims against the Road Accident Fund for benefits paid on behalf of the Scheme's members are disclosed as a contingent asset as the inflow of economic benefits is probable, but not virtually certain.

Notes to the Financial Statements

28. CHANGE IN ESTIMATE (CONTINUED)

OPERATING LEASES COMMITMENTS

	2019 R	2018 R
Minimum lease payments due		
- within one year	109 979	205 332
- in second to fifth year inclusive	82 485	159 918
	192 464	**365 250**

The Scheme entered into various operating lease agreements for office equipment. Leases on office equipment are contracted for a period of mostly three years. Some operating leases were capitalised as right-of use assets (refer to note 6) with corresponding lease liability (refer to note 12), whilst the low value and short-term leases were recognised in surplus or deficit in accordance with IFRS 16. No contingent rent is payable.

AUTHORISED CAPITAL EXPENDITURE

	2019 R	2018 R
Budgeted for, but not committed:		
• Equipment and other assets	-	3 740 545

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

29. RELATED PARTIES

Relationships

Key management personnel and their close family members	Board of Trustees Principal Officer Members of the executive committees

All transactions and balances are at the same terms as applicable to third parties. All lease agreements with related parties are negotiated at arm's length prices.

RELATED PARTY TRANSACTIONS AND BALANCES

	2019 R	2018 R
Gross contributions received	982 320	1 069 202
Claims incurred from the PMSA	252 735	248 296
Claims incurred by the Scheme	589 468	710 899
Principal Officer: remuneration	4 026 791	2 299 330
Principal Officer: travel, accommodation and conferences	372 382	35 549
Board of Trustees remuneration and considerations	140 014	129 922
Savings account balances	71 201	313 719

Notes to the Financial Statements

30. TRUSTEES' EMOLUMENTS

2019

	Meeting attendance R	Meeting travel fees R	Training and travel accommodation R	Total direct remuneration R	Training courses costs R	Total indirect remuneration R	Total direct and indirect remuneration R
BOARD OF TRUSTEES							
M Dugmore	-	-	29 889	29 889	-	-	29 889
JC de Carvalho	19 521	-	-	19 521	-	-	19 521
KL Leripa	-	-	39 357	39 357	-	-	39 357
PM Motubatse	-	-	30 161	30 161	-	-	30 161
JA de Jager	7 071	87	-	7 158	-	-	7 158
	26 592	**87**	**99 407**	**126 086**	**-**	**-**	**126 086**
AUDIT AND GOVERNANCE							
AD de Jager	3 586	686	-	4 272	-	-	4 272
AJ de Klerk	6 275	2 046	-	8 321	-	-	8 321
	9 861	**2 732**	**-**	**12 593**	**-**	**-**	**12 593**
INVESTMENT COMMITTEE							
Committee experts	1 335	-	-	1 335	-	-	1 335
	1 335	**-**	**-**	**1 335**	**-**	**-**	**1 335**
	37 788	**2 819**	**99 407**	**140 014**	**-**	**-**	**140 014**

2018

	Meeting attendance R	Meeting travel fees R	Training and travel accommodation R	Total direct remuneration R	Training courses costs R	Total indirect remuneration R	Total direct and indirect remuneration R
BOARD OF TRUSTEES							
OA Maritz	-	-	11 146	11 146	14 650	14 650	25 796
M Dugmore	-	-	11 146	11 146	16 009	16 009	27 155
AJ Nienaber	-	-	-	-	1 359	1 359	1 359
HGR Schoeman	-	-	-	-	1 359	1 359	1 359
JC de Carvalho	20 128	-	-	20 128	1 358	1 358	21 486
RA Mofokeng	-	-	-	-	1 359	1 359	1 359
SN Makile	-	-	-	-	1 359	1 359	1 359
TM Masike	-	-	-	-	1 359	1 359	1 359
CD Logan-Delagey	-	-	-	-	1 359	1 359	1 359
MH Pearson	-	-	-	-	1 359	1 359	1 359
JA de Jager	20 128	475	-	20 603	1 359	1 359	21 962
TS Lessing	-	-	-	-	1 358	1 358	1 358
	40 256	**475**	**22 292**	**63 023**	**44 247**	**44 247**	**107 270**
AUDIT AND GOVERNANCE							
AD de Jager	4 988	108	-	5 096	-	-	5 096
AJ de Klerk	11 754	3 132	-	14 886	-	-	14 886
	16 742	**3 240**	**-**	**19 982**	**-**	**-**	**19 982**
INVESTMENT COMMITTEE							
N Dickman	2 670	-	-	2 670	-	-	2 670
	2 670	**-**	**-**	**2 670**	**-**	**-**	**2 670**
	59 668	**3 715**	**22 292**	**85 675**	**44 247**	**44 247**	**129 922**

Notes to the Financial Statements

31. INSURANCE RISK MANAGEMENT

31.1 RISK MANAGEMENT OBJECTIVES AND POLICIES FOR MITIGATING INSURANCE RISK

The primary insurance activity carried out by the Scheme assumes the risk of loss from members and their dependants that are directly exposed to the risk. These risks relate to the health of the Scheme members. As such the Scheme is exposed to the uncertainty surrounding the 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, case management, service provider profiling and monitoring of emerging issues.

The Board of Trustees has delegated the oversight of the operational duties and management of insurance risk to which the Scheme is exposed to, to the Audit and Governance committee. The Audit and Governance committee reviews the insurance risks to which the Scheme is exposed to at each meeting. The Board of Trustees ensures that the benefit options provided to members are structured to fall within the acceptable insurance risk levels specified.

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

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

31.2 NATURE AND EXTENT OF RISKS ARISING FROM INSURANCE CONTRACTS

The Scheme issues contracts that transfer insurance risk. This section summarises these risks and the way the Scheme manages them.

31.3 CONCENTRATION OF INSURANCE RISK

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 volatility of the outcome. The strategy is set out in the annual business plan, which specifies the benefits to be provided, the preferred target market and demographic split thereof.

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

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

Day-to-day benefits cover the cost (up to 100% of the Scheme tariff) of all out of hospital medical attention, such as visits to general practitioners and dentists as well as prescribed non-chronic medicines. Savings account claims are excluded. All the contracts are annual in nature and the Scheme has the right to change the terms and conditions of the contract at renewal. Management information, including contribution income, claims ratios and demographic split, is reviewed monthly.

The following table summarises the concentration of insurance risk, with reference to the carrying amount of the insurance claims incurred, excluding capitation fee, by age group in relation to the type of risk covered / benefits provided. Where appropriate prescribed minimum benefits ("PMB") and non-PMB claims have been split.

2019

Age group	Number of members	In-hospital		Chronic		Day-to-day		Total
		PMB	Non-PMB	PMB	Non-PMB	PMB	Non-PMB	
		R	R	R	R	R	R	R
< 25	204	21 533 718	9 320 185	6 258 027	1 182 418	11 063 604	12 051 865	61 409 817
25 - 34	1 817	12 660 356	4 031 851	790 845	815 796	7 990 231	7 497 942	33 787 021
35 - 49	2 807	21 073 022	10 218 736	4 991 955	3 620 776	16 694 107	18 059 504	74 658 100
50 - 64	1 564	29 322 062	10 349 177	8 272 835	3 436 069	21 685 373	18 336 701	91 402 217
> 65	884	35 750 157	5 147 073	6 193 464	3 106 081	20 258 296	17 124 135	87 579 206
Total	**7 276**	**120 339 315**	**39 067 022**	**26 507 126**	**12 161 140**	**77 691 611**	**73 070 147**	**348 836 361**

Notes to the Financial Statements

31. INSURANCE RISK MANAGEMENT (CONTINUED)

2018

Age group	Number of members	In-hospital		Chronic		Day-to-day		Total
		PMB	Non-PMB	PMB	Non-PMB	PMB	Non-PMB	
		R	R	R	R	R	R	R
< 25	194	18 979 037	8 214 472	5 515 598	1 042 140	9 751 059	10 622 076	54 124 382
25 - 34	1 730	11 158 378	3 553 527	697 022	719 013	7 042 299	6 608 414	29 778 653
35 - 49	2 673	18 572 996	9 006 423	4 399 728	3 191 220	14 713 579	15 916 991	65 800 937
50 - 64	1 489	25 843 400	9 121 389	7 291 376	3 028 426	19 112 700	16 161 302	80 558 593
> 65	843	31 508 889	4 536 443	5 458 694	2 737 587	17 854 926	15 092 590	77 189 129
Total	**6 929**	**106 062 700**	**34 432 254**	**23 362 418**	**10 718 386**	**68 474 563**	**64 401 373**	**307 451 694**

31.4 RISK TRANSFER ARRANGEMENTS

The Scheme reinsures a portion of the risks it underwrites so that it can limit its exposures to losses and protect capital resources. The Scheme has entered into a capitation agreement with Anglo Coal Highveld Hospital in respect of the Yebomed option.

Risk in terms of risk transfer arrangements

The risk transfer arrangement spreads the risk and minimises the effect of losses. According to the terms of the capitation agreement, the Anglo Coal Highveld Hospital Network provides certain benefits to all Yebomed members, as and when required by the members. The Scheme does, however, remain liable to its members and suppliers with respect to ceded insurance obligations if any reinsurer (supplier) fails to meet the obligations it assumes.

31.5 CLAIMS DEVELOPMENT

Claims development tables are not presented. The uncertainty regarding the amount and timing of claim payments are resolved within a year.

32. NON-COMPLIANCE WITH THE ACT

The Scheme places high priority to meeting requirements set by the Medical Schemes Act of South Africa No. 131 of 1998, as amended and other legislation and regulations. In this regard, the Scheme subjects itself to internal audit as well as independent external audits to ensure compliance. Due to this approach, the Scheme does not focus on one area of compliance only, but on all areas that affect the Scheme and ensures compliance in this way.

The following are non-compliance with the Medical Schemes Act of South Africa No. 131 of 1998, as amended that arose during the year under review, even though the Scheme did not incur any regulatory penalties, sanctions or fines for any contraventions. The details of each matter of non-compliance is disclosed below:

32.1 INVESTMENTS IN ADMINISTRATOR, HOLDING COMPANY OF THE ADMINISTRATOR OR ANY EMPLOYER GROUP

In terms of Section 35(8)(a,c&d) of the Medical Schemes Act of South Africa No. 131 of 1998, as amended, a medical scheme shall not invest in the business of an administrator of a medical scheme or any holding company of an administrator or any related employer group. The Scheme has indirect underlying investments in unrelated listed administrators of medical schemes (MMI Group Ltd), amounting to 0.04% (2018: 0.1%), in unrelated holding companies of administrators (Glencore PLC) of 0.02% (2018: 0.1%) and in related listed employer groups of 0.92% (2018: 0.90%) (Anglo American PLC 0.86% (2018: 0.90%)) as part of total investments held through Unit Trust portfolios and Linked Fund policies. The Board of Trustees is of the opinion that in principal this non-compliance is not a risk to the Scheme since the Scheme is not related to any of the administrators in which investments are held and no direct influence is exercised by any of the employer groups by investing in these financial instruments.

32.2 CLAIMS APPROVED MORE THAN 60 DAYS AFTER REQUEST FOR CORRECTION

In terms of Section 33(2) of the Medical Schemes Act of South Africa No. 131 of 1998, as amended, each option shall be self-supporting in terms of membership and financial performance and be financially sound. The Board of Trustees believe that the Scheme continues to be adequately priced to meet claims expenditure and benefit obligations.

The Scheme generated a net health care deficit of R 40 516 709 (2018: R 29 552 852). Once regard is, however, given to supplementary investment and other net income, the Scheme generated a net operating deficit of R 14 055 296 (2018: R 138 221).

During the 2019 financial year, the following options generated net healthcare deficits and were not self-sustaining:

- Comprehensive - R 44 459 772 (2018: R 32 504 918)

The Scheme has excess reserves that provide a layer of protection against large membership risk profile changes.

Notes to the Financial Statements

32. NON-COMPLIANCE WITH THE ACT (CONTINUED)

32.3 LATE RECEIPT OF CONTRIBUTIONS

Section 26(7) of the Medical Schemes Act of South Africa No. 131 of 1998, as amended, requires membership contributions to be collected within three days of payment becoming due. Occasionally payments are received after the third day of the subsequent month for some of the employer groups.

If contributions are not collected as stipulated, the risk of not receiving it increases.

While some payments were not always received timeously, all commitments were met soon after due date. The credit control department follows up on outstanding amounts on a regular basis.

32.4 CLAIMS PAID IN EXCESS OF 30 DAYS OF RECEIPT

In terms of section 59(2) of the Medical Schemes Act of South Africa No. 131 of 1998, as amended, a medical scheme shall pay claims within 30 days of receipt thereof.

A small percentage of claims were not paid within 30 days as prescribed by the Act. Particularly between December and January the number of days between the receipt of a claim and the payment could amount to 38 days, causing the Scheme not to be fully compliant. The scheme normally performs month end runs on the second last business day of the month.

32.5. CLAIMS APPROVED MORE THAN 60 DAYS AFTER REQUEST FOR CORRECTION

In terms of Regulation 6(3) of the Medical Schemes Act of South Africa No. 131 of 1998, as amended, once an individual has been informed that his/her claim was rejected, the individual has 60 days to correct the claim information. Some of the claims were approved after the 60 days period has passed. In these instances management had used its discretion in favour of the member, where sufficient justification allowed, in the interest of treating customers fairly.

33. SIGNIFICANT EVENTS

Reportable irregularity

The Scheme's external auditors reported an irregularity in terms of Section 45(1) of the Auditing Profession Act, 2005 (No.26 of 2005) to the Independent Regulatory Board for Auditors. The irregularity relates to alleged fraudulent activities committed by a member of senior management. The alleged fraudulent activities included misuse of the Scheme's property, expenses incurred without the appropriate authorisation, non-compliance with the Scheme's internal procurement policies and theft of the Scheme's monetary assets.

The Scheme subsequently commissioned an independent forensic investigation on the matter and the investigation is not yet finalised. Over and above commissioning a forensic investigation the member of senior management has been suspended pending the outcome of the investigation. The Board of Trustees considers its continued success to be dependent on the consistent enforcement of, and adherence to, principles of the highest standard of corporate governance and ethics.

34. GOING CONCERN

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

35. EVENTS AFTER THE REPORTING PERIOD

South Africa confirmed its first case of the COVID-19 virus on 5 March 2020. As of 15 March 2020, a state of disaster was declared by the presidency. The presidency declared a national lock down of the state which will be in effect from 26 March. The impact of the virus varies greatly based on the demographics of the population. The ultimate infection rate remains highly uncertain across the globe. Certain projections have estimate that this could be 60% - 70% (as communicated by South Africa's Minister of Health).

There is significant uncertainty globally regarding the trajectory of the pandemic as well as the associated costs. Currently available information remains largely uncertain and unverifiable in the absence of corroborating data. Results are likely to change as more data becomes available.

The manageability of costs is highly dependent on the term over which the infections occur and the slowing of the virus through measures such as hygiene and social distancing are critical, as well as early detection of infected individuals.

Notes to the Financial Statements

35. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

The actuaries are currently conducting an impact assessment with readily available data, based on the following assumptions:

- Despite the infection rate potentially reaching 60%-70%, 3ONE (Pty) Ltd has maintained an assumed ultimate infection rate of 40%, as no infection rates globally have yet reached close to 60%, and we therefore believe it is too early to amend this assumption. Should 60% or more prove accurate this would result in poorer outcomes than contemplated in this report. That being said, any additional financial impact would be expected to be limited by critical care capacity in hospitals.
- Through consideration of a number of new and alternative sources of information and research it is believed that the severity may not prove quite as high, as primarily based on analysis of experience in China, as these rates may not have fully contemplated mild and asymptomatic cases, which were not reported or measured.
- All patients listed as severe or worse would be expected to require hospitalisation and severity rates are differentiated by age such that they can be appropriately applied to varying scheme demographic profiles.
- It is expected that there is likely to be a lack of capacity in hospitals to cater for COVID-19 patients, particularly in respect of critical care and ICU for critical patients and therefore it is assumed that one third of hospitalisations will ultimately not be able to be accommodated due to capacity constraints.

Given the assumptions, together with the population demographics of WCMAS, the estimated cost per beneficiary over the period of the pandemic is approximately R 3 400, with an estimated cost per infected beneficiary of R 8 400. This compares to the previously communicated cost per beneficiary of R 6 100 and cost per infected beneficiary of R 15 300. As 24 438 beneficiaries participate on WCMAS this could result in an ultimate cost of approximately R 83.1 million.

Based on the current estimated impact, approximately 38.2 per every 1 000 WCMAS beneficiaries may be hospitalised and the mortality rate is expected to be 2.5 per 1 000 beneficiaries over the course of the pandemic. This would result in a total of approximately 930 hospitalisations and 60 deaths.

There is also expected to be a positive impact on the cost of non COVID-19 related claims through the implementation of lockdown and social distancing measures, as well as a reduction in the rate of elective procedures, general admissions and access to care. The impact of this is highly uncertain. However, until there is more clarity, 3ONE has assumed that non-COVID-19 related claims will be reduced by 5% for May to July 2020.

There is also expected to be a relatively significant impact on the size of reserves, given the impact of COVID-19 on the economy and asset markets. Until there is further clarity on the potential impact thereof, 3ONE (Pty) Ltd has assumed that any reduction in investment income and reserves has already been experienced by the Scheme. In particular, the unrealised loss to date is R 49.4 million.

There have been no other material facts or circumstances that have occurred between the reporting date and the date of approval of these financial statements that the Trustees consider should be brought to the members' attention.

Notes to the Financial Statements

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

2019	Comprehensive R	Midmas R	Ntsika R	Yebomed R	Total R
Gross contribution income	451 763 864	7 705 617	8 634 137	48 069 490	516 173 108
Savings contributions	(112 913 271)	(1 387 012)	-	-	(114 300 283)
Risk contribution income	**338 850 593**	**6 318 605**	**8 634 137**	**48 069 490**	**401 872 825**
Relevant healthcare expenditure					
Risk claims incurred	(431 214 742)	(5 424 159)	(5 354 194)	(46 451 911)	(488 445 006)
Savings claims paid	92 419 160	1 221 459	-	-	93 640 619
Managed care - management service fees	(5 443 389)	(110 727)	(468 701)	-	(6 022 817)
Provision for claims	(3 090 000)	288 000	(171 000)	-	(2 973 000)
Risk transfer arrangements	-	-	-	1 337 725	1 337 725
Third party claim recoveries	535 139	-	-	-	535 139
	(346 793 832)	(4 025 427)	(5 993 895)	(45 114 186)	(401 927 340)
Gross healthcare result	**(7 943 239)**	**2 293 178**	**2 640 242**	**2 955 304**	**(54 515)**
Broker services	(28 835)	(962)	(2 828)	-	(32 625)
Administration expenditure	(36 422 915)	(264 636)	(773 448)	(2 907 233)	(40 368 232)
Net impairment on healthcare receivables	(64 783)	3 529	(83)	-	(61 337)
Net healthcare result	**(44 459 772)**	**2 031 109**	**1 863 883**	**48 071**	**(40 516 709)**
Other income					
Investment income	41 807 080	152 655	95 414	728 676	42 783 825
Income from use of own facilities by external parties	4 694 473	-	-	-	4 694 473
Sundry income	636 000	-	-	-	636 000
	47 137 553	152 655	95 414	728 676	48 114 298
Other expenditure					
Asset management fees	(3 413 659)	-	-	-	(3 413 659)
Cost incurred in provision of own facilities to external parties	(7 661 973)	-	-	-	(7 661 973)
Net interest paid on savings accounts	(10 577 253)	-	-	-	(10 577 253)
	(21 652 885)	-	-	-	(21 652 885)
(Deficit) / surplus for the period	**(18 975 104)**	**2 183 764**	**1 959 297**	**776 747**	**(14 055 296)**

Notes to the Financial Statements

36. SURPLUS / (DEFICIT) FROM OPERATIONS PER BENEFIT OPTION (CONTINUED)

2018	Comprehensive	Midmas	Ntsika	Yebomed	Total
	R	R	R	R	R
Risk contribution income	**300 281 750**	**4 834 245**	**5 659 359**	**45 393 595**	**356 168 949**
Relevant health care expenditure					
Risk claims incurred	(307 423 376)	(2 778 050)	(3 679 085)	(44 453 485)	(358 333 996)
Net income on risk transfer arrangement	-	-	-	1 892 496	1 892 496
Managed care - management service fees	(5 036 317)	(84 723)	(283 924)	-	(5 404 964)
Third party claim recoveries	2 372 879	-	-	-	2 372 879
	(310 086 814)	(2 862 773)	(3 963 009)	(42 560 989)	(359 473 585)
Gross healthcare result	**(9 805 064)**	**1 971 472**	**1 696 350**	**2 832 606**	**(3 304 636)**
Broker services	(82 381)	(2 269)	(4 903)	-	(89 553)
Administration expenditure	(22 577 536)	(222 002)	(484 365)	(2 832 606)	(26 116 509)
Net impairment losses on healthcare receivables	(39 937)	(2 217)	-	-	(42 154)
Net healthcare result	**(32 504 918)**	**1 744 984**	**1 207 082**	**-**	**(29 552 852)**
Other income					
Investment income	39 284 572	52 372	46 054	632 845	40 015 843
Income from use of own facilities by external parties	4 544 829	-	-	-	4 544 829
Sundry income	675 315	-	-	-	675 315
	44 504 716	52 372	46 054	632 845	45 235 987
Other expenditure					
Asset management fees	(3 397 536)	-	-	-	(3 397 536)
Cost incurred in provision of own facilities to external parties	(2 980 941)	-	-	-	(2 980 941)
Net interest paid on savings accounts	(9 450 535)	7 656	-	-	(9 442 879)
	(15 829 012)	7 656	-	-	(15 821 356)
Net (deficit)/surplus for the year	**(3 829 214)**	**1 805 012**	**1 253 136**	**632 845**	**(138 221)**