AMS ANGLO MEDICAL SCHEME

MEDIBRIEF

SPECIAL EDITION: ANNUAL FINANCIAL STATEMENTS FOR 2017: COMMENTARY APRIL 2018

2017 AT A GLANCE

Contributions increased

AMS **11.4%**

Est. industry average **11.3%**

Interest earned on medical savings account increased

2017 **R14.25m**

2016 **R11.62m**

Average beneficiary age stable

2017 **42.90**

2016 **42.05**

Solvency ratio decreased

2017 **487%**

2016 **529%**

Number of beneficiaries decreased

2017 **18 850**

2016 **18 903**

Executive summary: a review of 2017

The Anglo Medical Scheme experienced positive results in 2017, showing a net surplus of R99.6 million compared to a net surplus of R59.5 million in 2016. The improvement over 2016 was largely achieved due to an increase in contributions, decreased administrative expenditure and a reduction in claims. 2017 continued the pleasing improvement in administration and operation efficiency with all service levels remaining satisfactorily high, exceeding the agreed 90% performance requirements. This did not go unnoticed by members.

Over the year the Scheme experienced an increase of 1.57% in relevant healthcare expenditure (total claims) while the percentage of risk claims as a percentage of risk contributions decreased by 8.97% overall. The introduction of co-payments for endoscopies in 2017, saw members using more appropriate, cost-effective facilities for these procedures. This resulted in some financial benefit and the lower admission rates to hospitals are anticipated to have a positive impact on the bottom line in the future.

In an endeavour to align the Scheme's contribution levels with those of the medical scheme market, a strategy adopted in 2015, our contributions increased by 11.4% in 2017 – marginally above the industry average of 11.3%.

The solvency ratio is designed to decrease over time and while the decrease for 2017 is notable, it does not give reason for concern as the Scheme holds sufficient reserves for the long term. In fact, the value of the reserves has increased, albeit at a slower rate than contribution income. The decrease to 487% from 2016's 529% can be attributed to the key factors of higher healthcare spending, a result of the improvement of benefits over the last few years, and lower investment returns, which continue to disappoint in a volatile market.

Membership remained stable at 9 028 (compared to 9 049 in 2016) reflected by the beneficiary decrease to 18 850 from 18 903 in 2016. Our pensioner ratio increased from 25.5% in 2016 to 26.2% in 2017. This ratio is expected to continue to increase over the next few years with the number of young new employees coming in to the Scheme not anticipated to compensate for the ageing membership. The Scheme's long-term funding strategy maintains a high level of reserving precisely for this reason.

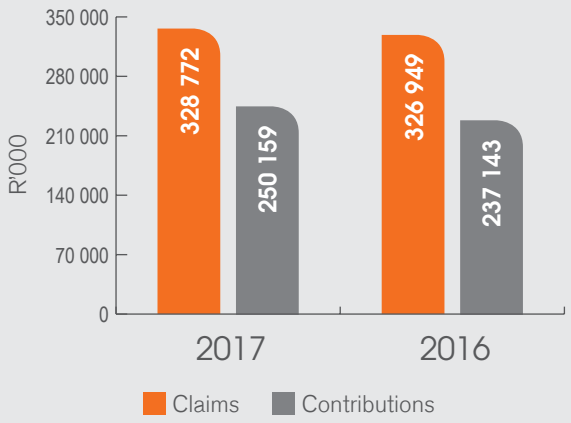
Managed Care Plan (MCP) members (average age 55.39 years and pensioner ratio of 46%), remained more than 20 years older on average than Standard Care Plan (SCP) members (average age 33.89 years). The average age of SCP members remained in line with the open scheme market, but above the restricted scheme average. The Value Care Plan (VCP) membership continued to increase to 615 members in 2017 from 529 in 2016, ageing by 6% over the period to an average of 25.3 years. Overall the Scheme remained 12.3 years older than the industry average (compared to restricted Schemes as per the 2016/2017 CMS Annual Report).

Towards the end of 2017 the Council for Medical Schemes (CMS) indicated that they would be applying their regulations to the letter of the law regarding the sustainability of scheme plans – meaning that any unsustainable or loss-making plan would have to close.

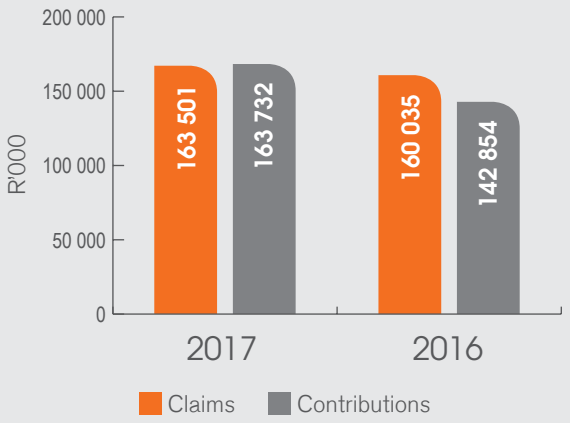
Representation was made by the industry at large resulting in the CMS not enforcing this at the end of 2017 and discussions on the matter between the CMS and the industry are still underway. Schemes were required to submit reasons for any loss-making plans, which AMS did. Although no response has been received from the CMS, we are confident that, given our long-standing strategy and the CMS's original acceptance of our strategy, we will be permitted to retain any loss-making plans.

Performance per plan

RELEVANT HEALTHCARE EXPENDITURE (CLAIMS) VS RISK CONTRIBUTIONS: MANAGED CARE PLAN



RELEVANT HEALTHCARE EXPENDITURE (CLAIMS) VS RISK CONTRIBUTIONS: STANDARD CARE PLAN



Member medical savings accounts: 2016 vs 2017

There was an increase in the interest earned on members' savings accounts, from R11.6 million in 2016 to R14.3 million in 2017, as a result of the increase in the total savings balances at the end of 2017 from R153.3 million to R173.9 million.

Member's medical saving accounts

After a 2017 Constitutional Court judgment, the CMS clarified that medical savings accounts should no longer be disclosed separately as a 'trust investment' in the statement of financial position. In terms of this judgment, they are to be considered as an asset of the Scheme in the compilation of the annual financial statements. This would mean that, should a fund become bankrupt, the medical savings would form part of the funds used to pay off scheme debt; not a concern considering AMS's substantial reserves. As a result, the Scheme no longer reports medical savings account funds separately and continues to accrue interest on members' positive medical savings balances.

Scheme reserves: long-term strategy

The expected overall cost of providing adequate healthcare benefits at market-related rates to AMS members increases due to the Scheme's much higher than average pensioner ratio (26.2% compared to the industry's 7.9% – CMS report September 2017). The individual plan pensioner ratios are: Managed Care Plan – 46%, Standard Care Plan – 11%, and Value Care Plan – 1%.

The sale of Anglo American SA subsidiaries over the years has resulted in the loss of active members while retaining pensioners, causing the Scheme to experience a high pensioner ratio. To compensate for this, the participating employers provided grants that are held in the reserves, enabling the Scheme to maintain market-related benefits and curb contribution increases.

The Scheme's actuaries perform an annual valuation, making long-term assumptions, which may differ from those used during the annual budget process, to calculate the funding needs to continue to provide cost-effective benefits to all members. This value may differ from those disclosed elsewhere in the notes. The gross long-term liability of R2.57 billion compares well against the Schemes' total assets as at 31 December 2017 of R2.92 billion.

Accumulated funds	**2017 R'000**	**2016 R'000**
Total members' funds per Statement of Financial Position	2 940 763	2 841 128
Less: cumulative unrealised net gain on measurement of investments to fair value	(479 662)	(380 425)
Accumulated funds per Regulation 29 of the Act	2 461 101	2 460 703
Gross contribution income (Note 8)	505 213	464 995
Accumulated funds ratio per Regulation 29 (including unrealised gains)	582.1%	611.0%
Accumulated funds ratio per Regulation 29 (excluding unrealised gains)	487.1%	529.2%
Minimum ratio required by Regulation 29 of the Act	25.0%	25.0%

The Scheme's investment strategy

The aim of the investment strategy is to ensure that the Scheme maintains sufficient funds to cover all claims for an extended period of time, to mitigate the effects of rising costs. Consequently, the investment objective is to earn a return, net of fees, which exceeds the Consumer Price Index by at least 3.5% per annum over a rolling five-year period.

The Trustees believe that risk should be managed, in part, by holding a conservative, yet diversified portfolio with a significant proportion of the assets providing returns that offer protection against inflation over the longer term.

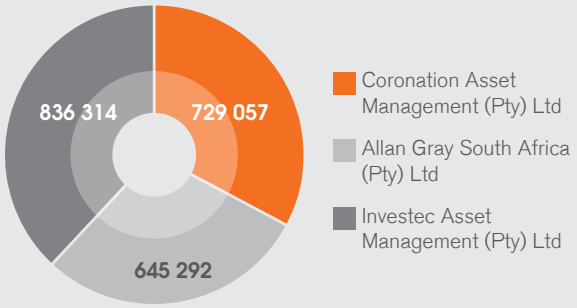
Given the market volatility and underperformance of assets experienced during the year under review, the investments were monitored closely. The investment performance did not enjoy the same level of success, as for example, the JSE, due to the investment restrictions on medical schemes, such as holding offshore equities.

The Scheme offers approximately 10-15% greater value per plan than the industry benchmark, which could be reduced without compromising members healthcare, allowing a degree of latitude to adjust for investment return underperformance if required.

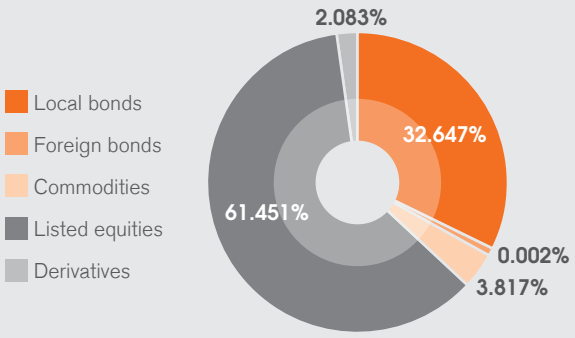
STATEMENT OF CHANGES IN FUNDS AND RESERVES

	Accumulated funds R'000
Balance as at 1 January 2016	**2 781 628**
Total comprehensive surplus for the year	59 500
Balance as at 31 December 2016	**2 841 128**
Total comprehensive surplus for the year	99 635
Balance as at 31 December 2017	**2 940 763**

INVESTMENTS

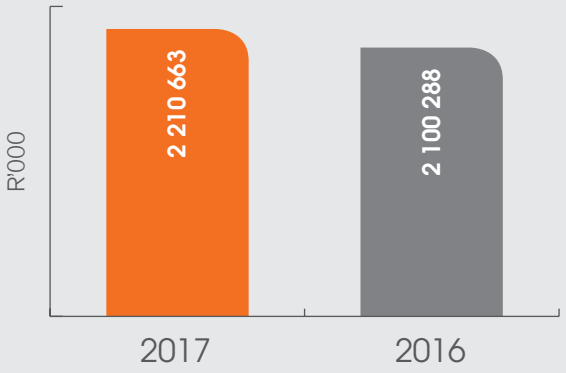


EFFECTIVE ASSET ALLOCATION



Assets

INVESTMENTS HELD AT FAIR VALUE THROUGH SURPLUS OR DEFICIT



PRINCIPAL PARTICIPATING EMPLOYER GROUPS
2017: Anglo Operations (Pty) Limited | Mondi Limited | Mpact Limited | Oppenheimer and Son (Pty) Limited.

Pensioner ratio Anglo Medical Scheme: 26.2%

Council for Medical Schemes (CMS) definition of pensioner vs Industry average pensioner ratio*

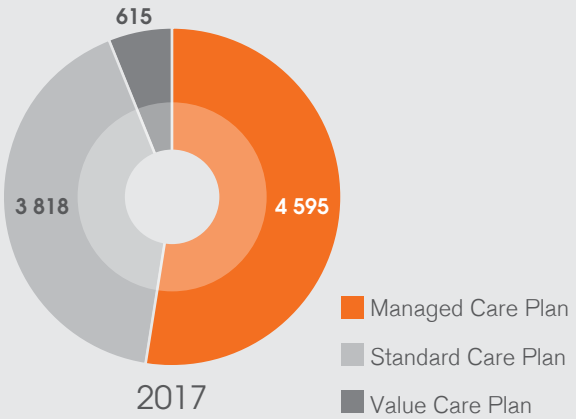
7.9% All schemes **VS** Restricted schemes **6.3%**

RESULT

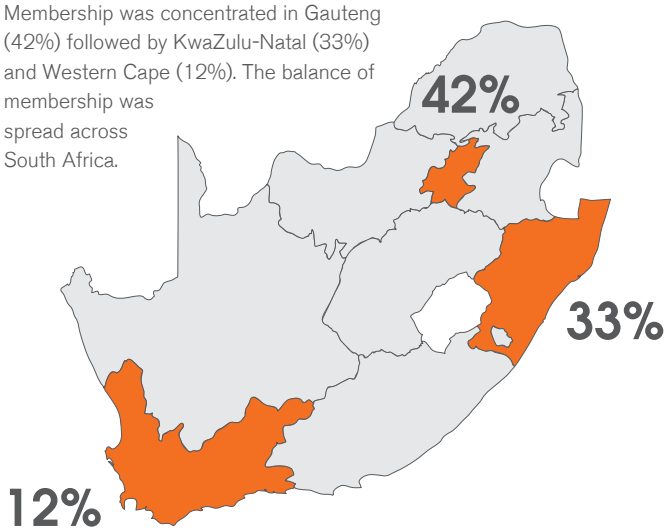
Increased costs of providing adequate healthcare benefits for members at market-related rates.

*CMS Annual Report 2016/2017

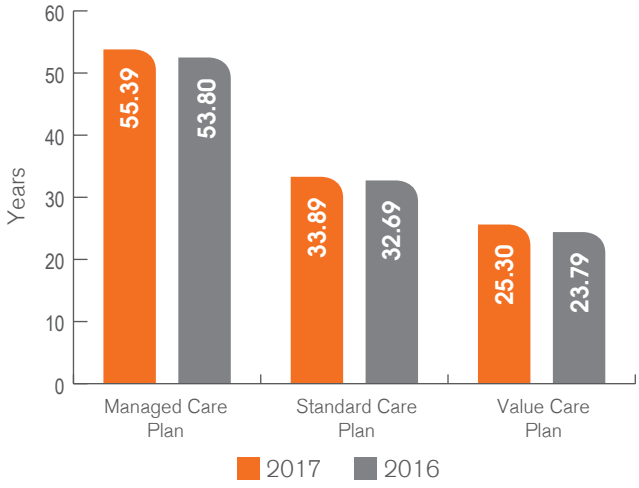
MEMBERSHIP BY PLAN



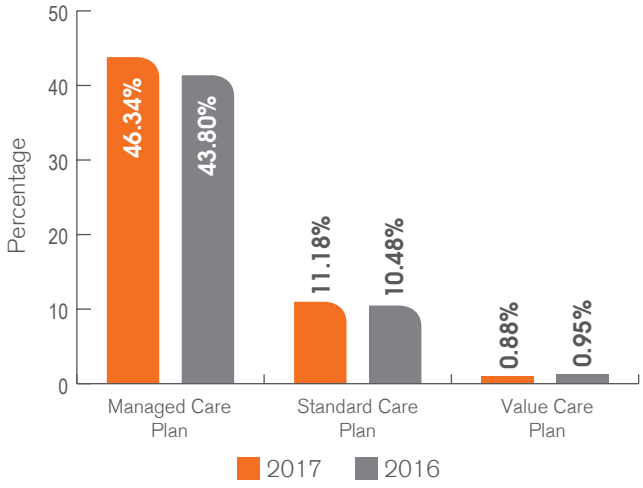
Membership was concentrated in Gauteng (42%) followed by KwaZulu-Natal (33%) and Western Cape (12%). The balance of membership was spread across South Africa.



AVERAGE AGE OF BENEFICIARIES



PENSIONER RATIO (BENEFICIARIES > 65)



SNAPSHOT OF THE SCHEME IN 2017

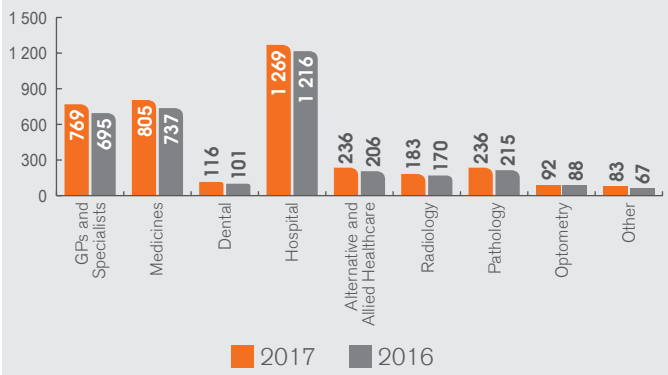
21 fewer active members | Beneficiary pensioner ratio ▲ **26.2%** (2016: 25.5%) | Beneficiary age remained almost constant at **42.9 years**
Managed Care Plan membership ▼ **4%** | Standard Care Plan membership ▲ **2%** | Value Care Plan membership ▲ **16%**

The average accumulated funds per member increased in 2017 to R325 341 (2016: R313 972)

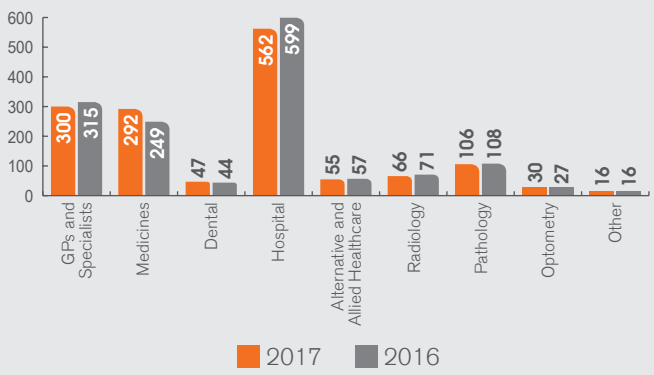
Medical expenditure by service provider group

Claims per life per month (including capitation fees) paid from risk and savings

MANAGED CARE PLAN



STANDARD CARE PLAN



Non-healthcare costs

Administration expenditure has been well within the recommended maximum limit of 10% for the third consecutive year. In 2017 administration expenses comprised 7.1% of risk contribution income compared to 7.4% in the previous year.

2017

- **537 000** claims processed
- **49 000** emails answered
- **36 000** calls handled
- **97%** of calls answered within 30 seconds
- **9.48/10** average service rating by members

* Figure subject to change as members have four months within which to submit claims for payment.

Managing risk

The Board of Trustees is responsible for the total risk management of the Scheme and has determined the risk strategy and policies based on the Scheme's appetite or tolerance for risk in line with the governance framework as set out in the King Report.

The Scheme has implemented a robust risk management framework, which ensures:

- an effective, ongoing process to identify risk,
- the measurement of any potential impact against a broad set of assumptions, and
- the proactive management and mitigation of risk.

The risk assessment process provides a structured methodology to identify the key risks within each area of business and assess the controls upon which management relies to mitigate these risks.

The Scheme risk assessment is a forward-looking evaluation of both the potential and current risks faced by the Scheme on a long-term and a daily basis. Assessments are completed which enable the Scheme Committees, Head Office and the management of the administrator to proactively identify, assess, monitor and manage the risks to which the Scheme is exposed.

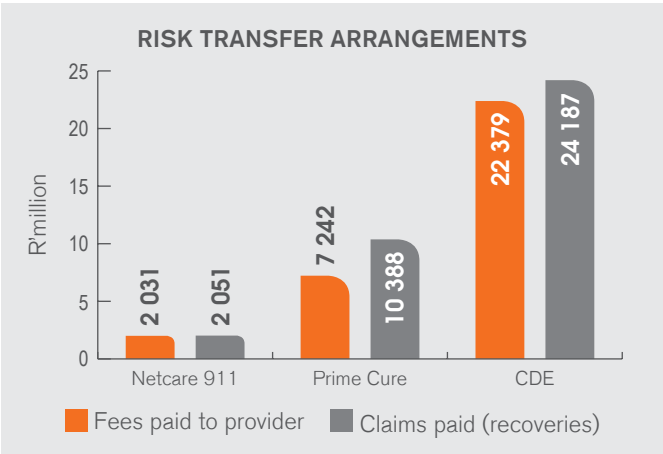
Risk transfer arrangements

In order to soundly manage the claims risk and mitigate identified risks, the Scheme holds risk-sharing agreements with various third-party service providers. These agreements allow us to ensure more cost-effective services for our members, by sharing risk with exclusive third-party suppliers.

The following risk transfer capitation arrangements were in place for the year:

Organisation	Services capitated	Scheme plan
Prime Cure (Pty) Ltd	Provides primary healthcare services at Healthcare centres and contracted network service providers, including a limited hospital benefit.	Value Care Plan
Netcare 911 (Pty) Ltd	Provides emergency transport services and other ambulance services.	Managed Care Plan/Standard Care Plan
Centre for Diabetes and Endocrinology (CDE)	Provides diabetes-related medical services including diabetes-related hospitalisation expenses.	Managed Care Plan/Standard Care Plan

The total net benefit of these arrangements in 2017 resulted in a surplus of R4.97 million (2016: R4.85 million).



BALANCE SHEET

Statement of Financial Position

as at 31 December 2017

	Notes	2017 R'000	2016 R'000
ASSETS			
Investments held at fair value through surplus or deficit	2	2 210 663	2 100 288
Trade and other receivables	3	4 376	4 205
Cash and cash equivalents		926 691	914 416
Medical Scheme funds	4.1	926 691	763 181
Medical Savings Account 'trust' funds	4.2	-	151 235
Total assets		**3 141 730**	**3 018 909**
FUNDS AND LIABILITIES			
Accumulated funds		2 940 763	2 841 128
Liabilities		200 967	177 781
Outstanding risk claims provision	5	13 350	16 066
Medical Savings Account liability	6	173 891	153 266
Trade and other payables	7	13 726	8 449
Total funds and liabilities		**3 141 730**	**3 018 909**

Outstanding claims provision

The outstanding risk claims provision is a provision for the estimated cost of healthcare benefits that have occurred before the reporting date, but have not been reported to the Scheme by that date. We use various assumptions, which are regularly reviewed to ensure their prudence. In the year under review, provision was made for R13.35 million compared with R16.07 million for the previous year.

INCOME STATEMENT

Statement of Comprehensive Income

for the year ended 31 December 2017

	Notes	2017 R'000	2016 R'000
Risk contribution income	8	**421 911**	**386 179**
Relevant healthcare expenditure		**(500 229)**	**(492 492)**
Net claims incurred		(494 473)	(486 985)
Risk claims incurred	9	(498 244)	(488 260)
Third-party claims recoveries		3 771	1 275
Net income on risk transfer arrangements	10	4 974	4 851
Risk transfer arrangement fees/premiums paid		(31 652)	(28 734)
Recoveries from risk transfer arrangements		36 626	33 585
Managed care: management services	11	(10 730)	(10 358)
Gross healthcare result		**(78 318)**	**(106 313)**
Administration expenses	12	(29 724)	(28 489)
Net impairment losses	13	(332)	(510)
Net healthcare results		**(108 374)**	**(135 312)**
Investment and other income		238 918	223 167
Investment income	14	237 949	219 893
Medical Scheme assets		237 949	208 272
Medical Savings Account 'trust' funds		-	11 621
Sundry income	15	969	3 274
Other expenditure		(30 909)	(28 355)
Expenses for asset management services rendered		(16 657)	(16 734)
Interest paid on Medical Savings Accounts		(14 252)	(11 621)
Net surplus for the year		**99 635**	**59 500**
Total comprehensive income for the year		**99 635**	**59 500**

Related-party transactions

The six member-elected and six employer-appointed Trustees who make up the Anglo Medical Scheme Board are collectively responsible for the proper and sound management of the Scheme.

Parties with significant influence over the Scheme
Discovery Health (Pty) Ltd (DH), in its role as administrator and managed care organisation, has significant influence over the Scheme.

Although DH participates in the Scheme's financial and operating policy decisions, it does not exert this influence in control of the Scheme. DH is compensated for its administration and managed care service via market-related fees.

These fees amounted to R18.82 million (2016: R17.84 million) and R9.25 million (2016: R8.80 million) respectively from the Scheme during 2017 and the amount owing at year-end was R3.75 million (2016: R3.42 million).

Member and employer contributions are typically collected via the participating employers' payroll systems, also indicating a significant element of possible influence.

With regard to Trustees who were also members of the Scheme, contributions of R1.25 million (2016: R1.11 million) were received and claims of R946 277 (2016: R923 130) were paid with regard to Trustees who were also members of the Scheme.

All claims were paid in accordance with the rules of the Scheme and at the end of 2017, the Trustees had Medical Savings Account balances of R217 111 (2016: R88 798).

Key management personnel, namely the Board of Trustees and the Principal Officer, were paid a total of R6.10 million (2016: R5.89 million) for the attendance of meetings, holding office and disbursements.

From the Board: statement of responsibility

The Trustees are responsible for the preparation and fair presentation of the Annual Financial Statements of the Anglo Medical Scheme (the Scheme), set out on pages 30 to 79 of the Annual Financial Statements, comprising the statement of financial position at 31 December 2017, the statements of comprehensive income, statement of changes in funds and reserves, statement of cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act of South Africa. In addition, the Trustees are responsible for preparing the report of the Board of Trustees.

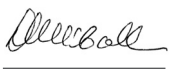
The Trustees are also responsible for such internal control, as the Trustees determine is necessary, to enable the preparation of Annual Financial Statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

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

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

Approval of the annual financial statements
The annual financial statements of Anglo Medical Scheme, as identified in the first paragraph, were approved by the Trustees on 11 April 2018 and are signed on their behalf by:

CC Elliott
Chairman



DR McCallum
Vice-Chairman

FK Robertson
Principal Officer

2017 TRUSTEES

Employer appointed
CC Elliott (Chairman)
D Ghavalas (Vice-Chairman) – resigned 25 May 2017
DR McCallum (Vice-Chairman – effective 1 June 2017)
MA du Bois
JP Coetzer – effective 20 November 2017
GAE Howell
RW Hunt – effective 1 June 2017 (served until 20 November 2017)
BD van der Bijl

Member elected
DE Abramowitz
MR Farrell
S Hosking
PA Laubscher
CC Mckie Thomson
GJ Preston – effective 1 January 2017

2017 ALTERNATE TRUSTEES

Employer appointed
C Mbekeni – effective 1 February 2017
N Mason-Gordon

Member elected
J Liston
L Sanford

The Trustees are of the opinion that there are no material deviations from the Act.

Non-compliance with the Act – Investment exemptions

Investment in participating employers
Section 35(8) (a) of the Medical Schemes Act states that a medical scheme shall not invest any of its assets in a participating employer. The Scheme was exposed to participating employer shares that constituted approximately 2% of total assets. The Scheme applied to the CMS and received an exemption from this section of the Medical Schemes Act.

Investment in an administrator
Section 35(8) (c) of the Medical Schemes Act states that a medical scheme shall not invest any of its assets in any administrator. The Scheme invests in pooled investment vehicles, which allow investment managers the discretion to invest in a combination of equities and bonds that will best achieve their stipulated benchmark. The Scheme applied to the CMS and received an exemption from this section of the Medical Schemes Act.

Investment limitations
Regulation 30(3) of the Medical Schemes Act states that a medical scheme shall not invest more than 40% of its assets in local equities. The Act makes provision for medical schemes to exceed this limit under certain circumstances. With the Scheme's investment strategy aiming to maximise investment income on a long-term basis, the Board of Trustees took a decision to exceed the 40% limit, after complying with all the required circumstances.

The Scheme submitted a certified statement prepared by its consultants to the CMS to state that an alternative percentage of 75% should apply to the excess assets as permitted in Regulation 30(3).

Basis of preparation

The Annual Financial Statements (AFS) for 2017 were prepared
– in accordance with the going concern principle using the historical cost basis, except for investments carried at fair value through surplus or deficit and
– in accordance with IFRS and the Medical Schemes Act, which requires additional disclosures for registered medical schemes.

Approval from the auditors

In accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa, external auditors, KPMG, certified that the AFS fairly presented the financial position of the Anglo Medical Scheme at 31 December 2017.

Dig into the detail

This special edition of MediBrief is a commentary on our 2017 Annual Financial Statements. For the full set of financials and more extensive notes in our annual financial statements, get in touch with us:

Visit our website: www.angloms.co.za and download the full report

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Email us: Yvonne.Landsberg@angloamerican.com