

ANGLO MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2016

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2016

ANGLO MEDICAL SCHEME
(Registration no. 1012)

The reports and statements set out below comprise the annual financial statements:

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SCHEME DETAILS

for the year ended 31 December 2016

ANGLO MEDICAL SCHEME

(Registration no. 1012)

BOARD OF TRUSTEES

Elliott CC (Chairman)
Ghavalas D (Vice-Chairman)
Abramowitz DE (effective 1 October 2016)
Barber DD (served until 12 September 2016)
du Bois MA
Farrell MR (effective 1 October 2016)
Fox FH (served until 30 September 2016)
Graham MD (served until 31 December 2016)
Hosking S
Howell GAE
Laubscher PA
McCallum DR
Mckie Thomson CC
van der Bijl BD (appointed 1 November 2016)
Welz MF (served until 31 October 2016)

PRINCIPAL OFFICER

Mrs FK Robertson

REGISTERED OFFICE

45 Main Street
Johannesburg
2001

POSTAL ADDRESS

PO Box 62524
Marshalltown
2107

AUDITOR

Registered address of auditor

KPMG Inc
85 Empire Road
Parktown
Johannesburg
2193

ADMINISTRATOR

Registered address of administrator

Discovery Health (Pty) Ltd
16 Fredman Drive
Sandton
2146

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

The Board of Trustees hereby presents its report for the year ended 31 December 2016.

1. DESCRIPTION OF THE MEDICAL SCHEME

1.1. Terms of registration

The Anglo Medical Scheme (the Scheme) is a not for profit restricted medical scheme registered in terms of the Medical Schemes Act 131 of 1998 (the Act), Registration number 1012. The Scheme was established by Anglo American South Africa and its purpose is to provide medical cover to the employees, retirees and continuation members of the participating employer groups and their affiliated companies. The principal participating employer groups are Anglo Operations (Pty) Limited, Mondi Limited, Mpact Limited, and E Oppenheimer and Son (Pty) Limited.

At 31 December 2016 the Scheme provided benefits to 9 049 members and 9 854 dependants. 51.04% of the members and dependants are female. Members are located primarily in Gauteng (42%), KwaZulu-Natal (33%) and the Western Cape (11%). The balance of membership is spread across South Africa.

1.2. Benefit options with Anglo Medical Scheme

Anglo Medical Scheme provides its members with a choice of three Plans; at 31 December 2016, Managed Care Plan serving 8 867 beneficiaries, average age 53.8 years, Standard Care Plan, 8 881 beneficiaries, average age 32.7 years and Value Care Plan 1 155 beneficiaries, average age 23.8 years old.

- **The Managed Care Plan (MCP)**

This plan offers unlimited cover for hospitalisation and most non-discretionary healthcare services. Out-of-hospital and discretionary benefits are provided through MSA. An additional GAP benefit is available to MCP members which pays up to 230% of the Scheme rate for specialist services rendered in hospital with the exception of Radiology and Pathology, which are unlimited, but paid up to 100% of the normal Scheme Reimbursement Rate.

- **The Standard Care Plan (SCP)**

This is a traditional plan with defined benefits and annual limits. Hospital benefits are unlimited. Out-of-hospital benefits are limited, with consultations and medicines including auxiliary services being limited under a single benefit. The Scheme provides stand alone benefits for Radiology and Pathology. Benefits are reimbursed at 100% of the Scheme Reimbursement Rate.

- **The Value Care Plan (VCP)**

This a primary health care plan providing services through a capitated arrangement with Prime Cure. Members may only obtain services from Prime Cure facilities or network providers. Management is achieved through the Prime Cure protocols.

1.3. Registered office

45 Main Street
Johannesburg
2001

PO Box 62524
Marshalltown
2107

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

1. DESCRIPTION OF THE MEDICAL SCHEME (continued)

1.4. Scheme administrator in office during the year under review

Discovery Health (Pty) Ltd
16 Fredman Drive
Sandton
2146

1.5. Investment managers and custodian bank in office during the year under review

Allan Gray South Africa (Pty) Ltd
1 Silo Square, V&A Waterfront
Cape Town
8001

Coronation Asset Management (Pty) Ltd
Mont Clare Place, 7th Floor, Cnr Campground and Main Roads
Claremont
7700

Investec Asset Management (Pty) Ltd
36 Hans Strydom Avenue, Foreshore
Cape Town
8001

Standard Bank of South Africa Limited
Investor Services, 2nd Floor, 25 Sauer Street
Johannesburg
2001

1.6. Investment advisor in office during the year under review

Willis Towers Watson
1st Floor, 44 Melrose Boulevard
Melrose Arch
2076

1.7. Actuarial advisor in office during the year under review

NMG Consultants and Actuaries (Pty) Ltd
NMG House, 411 Main Avenue
Randburg
2125

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

1. DESCRIPTION OF THE MEDICAL SCHEME (continued)

1.8. External auditor for the year under review, as approved by the Annual General Meeting

KPMG Inc.
KPMG Crescent
85 Empire Road
Parktown
2193

2. SCOPE OF THE REPORT

2.1. Guidelines

The Anglo Medical Scheme adheres to the governance framework set out in the King Report on Governance for South Africa and the King Code of Governance Principles (King III).

The Scheme's financial policies and Annual Financial Statements comply with International Financial Reporting Standards (IFRS) as informed by the Medical Schemes Accounting Guide issued by the South African Institute of Chartered Accountants (SAICA) and the regulatory requirements as set out in the Act and its supporting Regulations.

2.2. Assurance

The Scheme's Actuaries comply with the best practice guideline issued in the Professional Guidance Note published by the Actuarial Society of South Africa.

The External Auditor expresses an audit opinion on whether the financial statements are prepared in all material respects in accordance with IFRS and the requirements of the Medical Schemes Act of South Africa. The External Auditor complies with International Standards on Auditing (ISA) in conducting the audit.

2.3. Independence

The External Auditor has adopted independence standards in compliance with the requirement of the International Federation of Accountants, Code of Ethics (IFAC).

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

3. CORPORATE RESPONSIBILITY AND SUSTAINABILITY

Anglo Medical Scheme offers comprehensive healthcare benefits and services to its members which are high-quality, market competitive, cost-effective and consumer focused. These are supported by sound financial and risk management, administrative efficiency and the active participation of the members and employers. This ensures the Scheme's active compliance with the spirit of the law, ethical standards and international norms.

The affairs of the Scheme are managed by the Board of Trustees in compliance with the Scheme Rules in a manner that is fair, transparent, non-discriminatory and upholds the rights, values and dignity of members and other stakeholders. The Board performs its duties in accordance with the Board Charter and the Code of Conduct against which the Trustees annually evaluate their performance and the performance of the Board as a whole. The Board shall at all times avoid conflicts of interests and Trustees are required to declare any interest they may have in any particular matter serving before the Board.

The Board has delegated some of its responsibilities to the duly appointed and constituted committees (the Committees). It determines the Terms of Reference of the Committees, approves all policies proposed by the Committees and receives quarterly reports from the Committees. The Committees do not relieve the Trustees of any of their responsibilities, but assist them to fulfil those responsibilities.

The Audit Committee meets independently with the Internal and External Auditors annually. Based on the review of the internal controls and risk management, the assurance and results of the audit and the recommendation of the Audit Committee, the Board of Trustees is of the opinion that the accounting policies, the internal control systems and the financial reporting practices are adequate and effective and that the basis for the preparation of the financial statements is sound.

The Scheme has supported aspects of the participating employers' social responsibility initiatives by adopting a progressive stand in the fight against HIV/AIDS and diseases such as diabetes and cancer. The Scheme regularly communicates with the membership on health and benefit matters in the recognition that a healthy, educated workforce becomes a sustainable asset to a participating employer.

The commitment to the long-term sustainability of the Scheme and its members remains the guiding principal of the Scheme. This has been strongly supported by the employers participating in the Scheme. To this end, the liability of the ageing population of the Scheme has been pre-funded to ensure the Scheme's sustainability and the premiums and benefits remain market-related and competitive.

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

4. SCHEME STRATEGY AND OBJECTIVES

4.1. Long term funding

The Council for Medical Schemes (CMS) definition of a pensioner is a beneficiary over the age of 65. The Scheme's significantly higher beneficiary pensioner ratio than the industry average (25.5% compared to 7.7% - CMS report September 2016) increases the expected overall cost of providing adequate healthcare benefits at market related rates to our members.

The Scheme entered into arrangements with the participating employer groups for grants to be made from time to time, at the employer's discretion, to meet the ongoing and the future cost of providing benefits for the large proportion of pensioner members. Annual actuarial valuations are performed in order to calculate the funding needed to continue to provide cost effective benefits to all members.

In performing the actuarial valuation, the actuary makes long-term assumptions which may differ from those used during the Scheme's annual short-term budget process, as disclosed elsewhere in the notes to these annual financial statements.

The value of the Scheme's total long-term assets as at 31 December 2016 was R2.801 billion. This compares against the gross long-term liability calculated by the Scheme's consultants and actuaries of R2.751 billion.

4.2. Rate of contribution increase strategy

Due to the average age of the Scheme membership being significantly higher than the average age of the industry, healthcare costs are also significantly higher. Likewise, contributions and annual increases would need to be higher than the industry average to fund the payment of claims. To prevent the member carrying the burden of these increased costs, an amount is budgeted annually, which is funded from reserves, to provide for the shortfall between the budgeted risk contribution income and claims incurred.

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

4. SCHEME STRATEGY AND OBJECTIVES (continued)

4.3. Investment strategy

The Scheme's investment strategy has been, and remains, aimed at maximising the annual return at an acceptable level of risk within the constraints of the Act. The Scheme believes 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.

The investment objective is to earn a return, net of fees, which exceeds the Consumer Price Index by at least 3.5% p.a. over a rolling five year period.

Period	Portfolio Performance	Consumer Price Index	CPI plus 3,5% p.a.
1 January - 31 December 2016 (p.a.)	6.9%	6.4%	9.9%
5 Years (p.a.)	7.0%	5.8%	9.3%
16 Years (p.a.) (since inception)	12.1%	5.8%	9.3%

Based on the above, the Trustees are confident that the overall long term strategy will provide for the healthcare needs of the of the Scheme members into the foreseeable future. However, given the more recent market volatility and under-performance of the assets, the investments are being monitored closely. The Scheme offers approximately 10-15% greater value per plan than the industry benchmark which could be reduced without compromising members healthcare. This allows a reasonable degree of latitude to adjust for investment return underperformance if required.

5. KEY PERFORMANCE MEASURES

The performance of the Scheme is measured by the contribution increase that is effected annually coupled with benefit changes. Contributions have increased at a rate between 1.2% - 2.1% above CPI, which was well below the industry average. The low increases, together with the improvement in benefits, will use approximately R1 billion from the reserves over the next 25 years. The Scheme liabilities, in terms of the provision for the high pensioner ratio, are now fairly equally matched to assets. As can be seen below, from 2017, the Scheme will function more in-line with the industry and be required to increase contributions closer to the industry average and the generally accepted medical inflation rate of CPI plus 3%, which includes the increase in utilisation.

Year	2017	2016	2015	2014
Average annual contribution increase per member	11.4%	8.5%	6.5%	7.3%
CPI	6.8%	6.4%	4.6%	6.1%
Industry gross average increase per beneficiary *	11.3%	9.9%	9.4%	9.7%

* The industry figure quoted serves as a guide only. It reflects the industry average percentage increase in the gross contribution income per beneficiary as reported by the Council for Medical Schemes.

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

6. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

6.1. Operational results

The Scheme budgets a small surplus each year after taking into consideration the investment income and the draw down from the reserves required to cover the expected contribution shortfall. Any net healthcare surplus achieved is reinvested to meet future shortfalls.

	2016 R'000	2015 R'000
Net healthcare result	(135,312)	(119,408)
Managed Care Plan	(105,866)	(97,605)
Standard Care Plan	(29,510)	(21,944)
Value Care Plan	64	141
Add: Net investment and other income	194,812	95,114
Net surplus/(deficit) for the year	59,501	(24,294)

The adult and child contributions are rebalanced annually by Plan, adjusting for changes in family size and ageing trends. Cognisance is taken of the employee salary increases and the claims experience of each Plan when determining contribution increases to ensure affordability. For the period under review the increases and contributions were as follows:

The net healthcare result was worse than expected for 2016, but this was offset by the higher than expected returns on investments, which assisted the Scheme in achieving an overall net surplus for the year.

	2016 R		2015 R	
	Adult	Child	Adult	Child
Average contribution increase 8.5%				
Managed Care Plan	3,405	785	3,169	727
Standard Care Plan	1,845	555	1,700	508
Value Care Plan	700	175	659	148

6.2. Outstanding risk claims

Movements in the outstanding risk claims provision are set out in Note 5 to the financial statements. The basis of calculation is consistent with the prior year.

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

6. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES (continued)

6.3. Accumulated funds

Movements in the accumulated funds are set out in the Statement of Changes in Accumulated Funds as reflected on page 9 in the financial statements.

	2016 R'000	2015 R'000
Total members' funds per Statement of Financial Position	2,841,128	2,781,628
Less: cumulative unrealised net gain on measurement of investments to fair value	(380,425)	(409,951)
Accumulated funds per Regulation 29 of the Act	2,460,703	2,371,677
Gross contribution income (Note 8)	464,995	446,855
Accumulated funds ratio per Regulation 29 (including unrealised gains)	611.0%	622.5%
Accumulated funds ratio per Regulation 29 (excluding unrealised gains)	529.2%	530.7%
Minimum ratio required by Regulation 29 of the Act	25.0%	25.0%

Refer to Note 4.1 for the reasons for this level of funding.

The average accumulated funds per member as at 31 December 2016 was R313 972 (2015: R304 070).

6.4. Medical Savings Account 'trust' liability

Refer to Note 1.6 and Note 6 of the annual financial statements.

The Medical Schemes Act stipulates that member savings balances do not form part of a scheme's assets and may not be used to pay scheme expenses or risk claims.

The Scheme continues to manage member's savings balances in accordance with Circular 38 of 2011. The members' ring-fenced savings are invested in an Investec Money Market account and are reflected in the Statement of Financial Position as the Medical Savings Account 'trust' funds in current assets, standing at R151.24 million as compared to R133.67 million at the end of 2015.

The liability to members in respect of the savings accounts is reflected as a current liability in the annual financial statements, repayable in terms of Regulation 10 of the Act.

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

7. 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 King Governance Principles set out in King III.

The Scheme has implemented a robust risk management framework, which ensures an effective ongoing process to identify risk, the measurement of potential impact against a broad set of assumptions, and that risk is proactively managed.

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 sub-Committees, Head Office and the management of the administrator to proactively identify, assess, monitor and manage the risks to which the Scheme is exposed.

The Board of Trustees identified the primary risks facing the Scheme to be as follows:

7.1. Strategic risk

The potential loss of value to the members and the employer groups due to the Scheme's inability to provide competitive, cost-effective, high-quality products and services that are market related.

Factors driving this risk relate to the Scheme's investments not delivering the required returns and escalation of healthcare costs. Much of this risk management and mitigation is discussed under Strategy, point 4 and under Committees of the Board of Trustees, point 11.

Legislative changes might impact the Scheme's ability to provide for the lifelong healthcare needs of the members. For example, the potential changes required to implement the proposed National Health Insurance policy may have a profound impact on the way the Scheme operates.

7.2. Operational risks

The risk of loss arising from failed or inadequate internal processes, people, systems and/or external events. This category includes legal risk, project risk, business continuity risk, data risk, information technology risk, and human capital risk. The day-to-day management of the Scheme in accordance with all legislative requirements and best practice guidelines is monitored and measured on an ongoing basis and is discussed under point 8.

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

7. RISK (continued)

7.3. Investment risk

The Scheme has identified investment risk as the risk of a decline in the net realisable value of investment assets as a result of adverse movements in market prices or factors specific to an investment itself which may impact on the Scheme's long term objectives. These may arise due to movements in interest rates, exchange rates, or equity and commodity prices and may be a result of macro global trends or internal domestic fluctuations.

7.4. Compliance risk

As defined in the Act, the business of a scheme is to undertake liability in return for a premium or contribution and to grant assistance in defraying expenditure incurred in obtaining any relevant health service. Compliance risk is the risk of statutory or regulatory sanction or material financial losses as a result of a failure to comply with applicable laws, regulations or supervisory requirements.

8. RISK MANAGEMENT AND MITIGATION

Refer to Notes 24 and 25 of the annual financial statements.

The Scheme maintains a sound system of risk management and internal control providing reasonable assurance in the achievement of the organisational objectives with respect to:

- Effectiveness and efficiency of operations;
- Safeguarding of the Scheme's assets (including information);
- Compliance with applicable laws, regulations and supervisory requirements;
- Supporting business sustainability under normal and adverse operating conditions;
- Reliability of reporting; and
- Behaving responsibly towards all stakeholders.

The risk assessment process:

- Focuses on the underlying causes of risks and not just the financial impacts;
- Facilitates the assessment of existing controls;
- Identifies priority areas so that effective testing of controls can take place;
- Assists management to determine the actions required to address the key risks identified;
- Assists in forecasting the Scheme's potential risk exposure in the future; and
- Allocates actions to staff that are able to effectively oversee the required activities.

The Board ensures that a systematic and documented assessment of the processes and outcomes surrounding key risks is undertaken annually and at appropriately considered intervals for the purpose of making its public statement on risk management.

Risk management and internal control are practiced throughout the Scheme, and are embedded in day-to-day activities.

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

8. RISK MANAGEMENT AND MITIGATION (continued)

Several methods are employed to assess and monitor risk exposure for individual types of risks insured and overall risks. These methods include the use of internal risk measurement models, sensitivity analyses and scenario analyses all of which are subject to strict audit criteria.

In addition to the Scheme's other compliance and enforcement activities, the Board has implemented a confidential reporting process ("whistleblowing").

The Board has delegated the risk management process to the Management Committee and the oversight of the risk management to the Audit Committee and Investment Committee. These Committees are answerable to the Board and do not relieve the Trustees of any of their responsibilities, but assists them to fulfil those responsibilities.

8.1. Risk transfer arrangements

Refer to Note 10 of the financial statements.

In line with the vision to soundly manage the claims risk, the Scheme has entered into risk-sharing agreements with third party service providers to ensure cost effective services. This provides the Scheme with the ability to mitigate an identified risk by agreement with a third party service provider. The principle is based on the sharing of predefined potential claims loss in return for exclusivity of delivering the service.

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

Organisation	Services capitated	Scheme benefit option
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 related hospitalisation expenses.	Managed Care Plan Standard Care Plan

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

9. GOVERNANCE

The Scheme vision is supported by the Board Charter wherein the Board commits to act in good faith with utmost due care, diligence and skill. Each Trustee is required to aspire to the core ethical principles of fairness, transparency, honesty, non-discrimination, accountability and respect for human dignity and rights.

The Board delegates the duty of delivery and operation of the functions to the duly constituted Committees while remaining fully responsible for the performance of the Scheme and accountable to the membership. The principles of good governance and sound business ethics are firmly adhered to through the adoption of the King III guidelines, a culture of rigorous risk and financial management and a stringent auditing process.

The Scheme complies with International Financial Reporting Standards and all the relevant legislative requirements.

10. MANAGEMENT

10.1. Board of Trustees in office during 2016:

Elliott CC (Chairman)	Employer Appointed
Ghavalas D (Vice-Chairman)	Employer Appointed
Abramowitz DE	Alternate Member Elected (until 30 September 2016) Member Elected (effective 1 October 2016)
Barber DD	Member Elected (served until 12 September 2016)
du Bois MA	Employer Appointed
Farrell MR	Alternate Member Elected (until 30 September 2016) Member Elected (effective 1 October 2016)
Fox FH (Dr)	Member Elected (served until 30 September 2016)
Graham MD	Member Elected (served until 31 December 2016)
Hosking S	Member Elected
Howell GAE	Employer Appointed
Laubscher PA	Member Elected
McCallum DR	Employer Appointed
Mckie Thomson CC	Member Elected
van der Bijl BD	Employer Appointed (appointed 1 November 2016)
Welz MF	Employer Appointed (served until 31 October 2016)

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

10. MANAGEMENT (continues)

10.2. Alternate Trustees in office during 2016:

Abramowitz DE	Member Elected (until 30 September 2016)
Farrell MR	Member Elected (until 30 September 2016)
Liston J	Employer Appointed
Mason-Gordon N	Employer appointed
Preston GJ	Member Elected (effective 12 September 2016)
Sanford L	Member Elected (effective 1 October 2016)

10.3. Management Committee in office at 31 December 2016:

Ghavalas D (Chairman); du Bois MA; Farrell MF (Invitee until 30 September 2016, thereafter full-time Committee member); Fox FH (until 30 September 2016); Graham MD; Liston J; McCallum DR; McKie Thomson CC (Invitee until 30 September 2016, thereafter full-time Committee member); Welz MF (until 31 October 2016).

10.4. Audit Committee in office during the year under review:

Brown M (Chairman, Independent); Barber DD (until 12 September 2016); Howell GAE; McCallum DR (effective 1 November 2016); Prinsloo J (Independent); Rood EJ (Independent, until 31 October 2016).

10.5. Ex Gratia Committee in office during the year under review:

Fox FH (Chairman until 30 September 2016); Laubscher PA (Chairman effective November 2016); Farrell MR; Hosking S; McKie Thomson CC; Pienaar J (Independent).

10.6. Investment Committee in office during the year under review:

Barber DD (Chairman until 12 September 2016); Mason-Gordon N (Alternate Employer Trustee to Elliott CC, appointed Chairman effective 17 November 2016); Abramowitz DE (Alternate Member Elected trustee until 30 September 2016, thereafter Member Elected Trustee and full-time Committee member); du Bois MA; Elliott CC; Ghavalas D; Liston J; Thompson HM (External Consultant).

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

10. MANAGEMENT (continues)

10.7. Disputes Committee in office during the year under review:

Dixon C (member elected); Henning J (member elected); Sanford L (member elected).

10.8. Principal Officer and staff in office during the year under review:

Robertson FK	Principal Officer	Scheme employed
Gröpp-Els E	Scheme and Clinical Manager	Scheme employed
Friese J	Communications Manager	Scheme employed
Landsberg Y	Scheme Secretary	Scheme employed

11. COMMITTEES OF THE BOARD OF TRUSTEES

11.1. Audit Committee

The Audit Committee (the Committee) is established in accordance with the provisions of the Act and is mandated by the Board of Trustees by written terms of reference as to its membership, authority and duties. The Committee consists of five members, two of whom are members of the Board of Trustees.

The majority of the Committee, including the chairperson, is independent and does not serve on the Board of the Scheme or act on behalf of the administrator.

In accordance with the provisions of the Act, the primary responsibility of the Committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems and financial reporting practices.

The External Auditor formally reports to the Committee on critical findings arising from the statutory audit. The Internal Auditor attends meetings and reports findings to the Committee.

The Committee met regularly during the year and both the Internal and External Auditor are invited to attend all Committee meetings, who also had unrestricted access to the Chairman of the Committee at all times.

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

11. COMMITTEES OF THE BOARD OF TRUSTEES (continued)

11.1. Audit Committee (continued)

The Committee is pleased to report that:

- It has carried out its duties in terms of the Act and the Board of Trustees written Committee Charter;
- The External Auditor has confirmed their independence;
- The assurances provided by Administrator management, the External Auditor and the Internal Auditor have satisfied the Committee that the controls are adequate and effective;
- It has ensured the co-ordination of the approaches of the Internal and External Auditor and has had oversight of the financial reporting process;
- It has evaluated the effectiveness of the risk management and governance;
- It has received the assurance from the External and Internal Auditors that nothing had come to their attention that compromised the effectiveness of the controls as they apply to the annual financial statements; and
- It has reviewed the approach taken to the application of King III and has found no material weakness.

The Committee has reviewed the Scheme's annual financial statements, reviewed the accounting policies, obtained assurances from the External Auditor and recommended the adoption of the annual financial statements by the Board of Trustees for presentation to members.

11.2. Investment Committee

The Investment Committee (the Committee) is a duly constituted committee of the Board of Trustees and has the responsibility to assist the Board of Trustees in carrying out their duties relating to the Scheme's investment policy and strategy. It is mandated by means of written terms of reference as to its membership, authority and duties.

The Committee consists of six members, 50% of whom are Trustees. The Scheme appointed Willis Towers Watson as independent investment consultants to assist the Committee. The current investment managers of the Scheme are Investec Asset Management (Pty) Ltd, Coronation Asset Management (Pty) Ltd and Allan Gray South Africa (Pty) Ltd.

The Committee met regularly during the year and the investment consultant attended all Committee meetings with the investment managers each attending at least one meeting per annum.

The Committee reviews the strategy regularly in accordance with the mandate set by the Board of Trustees and advises on the structure of the portfolio as well as risk mitigation to ensure sustainability of the Scheme's long-term cross subsidy liability funding requirements.

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

11. COMMITTEES OF THE BOARD OF TRUSTEES (continued)

11.3. Management Committee

The Management Committee (the Committee) is mandated by the Board of Trustees to oversee and review the management of the day-to-day administrative and financial risk management (with the exception of investment risk management), and financial functions of the Scheme by means of written terms of reference as to its membership, authority and duties.

This Committee is chaired by the Vice Chairman of the Scheme and comprises six Trustees and one Alternate Trustee who meet a minimum of four times a year to review key indicators and make formal proposals and recommendations to the Board of Trustees. The Chairman of the Scheme is invited to attend the meetings ex-officio.

Administrative risk management measures are employed to ensure good governance of the access to benefits; these include, but are not limited to pre-authorisation, case management, service provider profiling, billing audits and interventions in respect of fraud.

11.4. Ex Gratia Committee

The Ex Gratia Committee (the Committee) is mandated by the Board of Trustees to assist members by awarding ex gratia payments where services were either denied or rejected due to limited or uncovered benefits as deemed appropriate according to the individual merits of each case. These awards are granted on the basis of the clinical circumstances of the case and/or financial hardship of the individual member and against an approved budget.

The Committee is governed by means of written terms of reference as to its membership, authority and duties. This Committee meets bi-monthly.

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

11. COMMITTEES OF THE BOARD OF TRUSTEES (continued)

11.5. Disputes Committee

The Disputes Committee (the Committee) is an independent Committee and comprises three members who are appointed by members at the Annual General Meeting. The appointed members may not be administrators, trustees or officers of the Scheme.

The main function of the Committee is to deal with member disputes where the member is dissatisfied with any decision taken by the Board or a Committee or an administrator of the Scheme. No disputes were raised in 2016, therefore no meetings were held during the year.

11.6. Regional Committees

Regions are established based on the number of members represented in a specific region. Business units are defined and designated by participating employers in each region.

There are currently three regions, namely; Central Region (Gauteng, Limpopo and Mpumalanga), Eastern Region (KwaZulu Natal) and the Southern Region (Western Cape, Eastern Cape and Northern Cape).

Each Regional Committee comprises a chairperson, Trustee, employer and member representative and meets biannually. The main function of these Committees is to provide feedback from the Board of Trustees meetings to the participating employers of the Scheme; who in turn provide feedback to all their respective active and retired members.

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

12. TRUSTEE AND NON-TRUSTEE MEMBERS ATTENDANCE AT COMMITTEE MEETINGS

	Board of Trustees		Audit Committee		Investment Committee		Management Committee		Ex-gratia Appeals Committee	
	A	B	A	B	A	B	A	B	A	B
Trustees										
Elliott CC	5	4			5	0				
Ghavalas D	5	5			5	5	7	7		
Abramowitz DE	1	0			1	1				
Barber DD	3	1	2	2	4	4				
du Bois MA	5	5			5	5	7	6		
Farrell MR	1	1+4*					1	1+3*	6	4
Fox FH (Dr)	4	4					5	5	5	5
Graham MD	5	4					7	5		
Hosking S	5	5							6	6
Howell GAE	5	4	3	3						
Laubscher PA	5	5							6	3
McCallum DR	5	4	1	1			7	7		
Mckie Thomson CC	5	5					2	1+3*	6	5
van der Bijl BD	1	1							0	1*
Welz MF	4	4					6	4		
Alternate Trustees and Consultants										
Brown M			3	3						
Liston J	0	4*			5	3	7	6		
Mason-Gordon NJ	1	1			5	5				
Pienaar J									6	5
Preston GJ	0									
Prinsloo J			3	2						
Rood E			3	1						
Thompson HM					5	3				

A = maximum possible attendance

B = actual attendance

* = voluntary attendance

REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2016

13. OPERATIONAL STATISTICS

The detailed statistics per plan are reflected in the table below:

	Managed Care Plan			Standard Care Plan			Value Care Plan			Total		
	2016	2015	%	2016	2015	%	2016	2015	%	2016	2015	%
Number of members at end of accounting period	4,767	5,033	-5%	3,753	3,678	2%	529	437	21%	9,049	9,148	-1%
Average (avg) number of members for the period	4,871	5,116	-5%	3,728	3,673	2%	482	396	22%	9,081	9,184	-1%
Beneficiaries at end of accounting period	8,867	9,569	-7%	8,881	8,692	2%	1,155	954	21%	18,903	19,215	-2%
Beneficiaries per member at end of accounting period	1.86	1.90	-2%	2.37	2.36	0%	2.18	2.18	0%	2.09	2.10	-1%
Avg age of beneficiaries	53.8	52.5	2%	32.69	32.71	0%	23.79	24.4	-3%	42.05	42.15	0%
Pensioner ratio (beneficiary > 65 years)	43.80%	41.37%	6%	10.48%	10.48%	0%	0.95%	1.26%	-25%	25.53%	25.41%	0%
Avg gross contribution per member per month	5,405	5,090	6%	3,193	2,942	9%	1,069	1,001	7%	4,267	4,055	5%
Avg gross contribution per beneficiary per month	2,888	2,667	8%	1,352	1,245	9%	487	449	8%	2,041	1,927	6%
Avg gross claim per member per month	6,685	6,109	9%	3,577	3,174	13%	952	867	10%	5,105	4,710	8%
Avg gross claim per beneficiary per month	3,571	3,201	12%	1,514	1,343	13%	434	389	11%	2,442	2,239	9%
Avg administration cost per member per month	271	265	2%	271	266	2%	104	104	0%	261	258	1%
Avg administration cost per beneficiary per month	144	139	4%	115	112	2%	47	47	1%	125	123	2%
Risk claims as a % of risk contributions	137.9%	134.7%	2%	112.0%	107.9%	4%	89.1%	86.7%	3%	127.5%	124.7%	2%
Administration cost as a % of gross contributions	5.0%	5.2%	-4%	8.5%	9.0%	-6%	9.7%	10.4%	-7%	5.1%	5.5%	-7%

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

14. ACTUARIAL SERVICES

The Scheme's actuaries are contracted to identify and monitor health related risks, establish claiming patterns and recommend contribution and benefit levels. They also participate in the monthly and annual calculations of the outstanding claims incurred, but not yet reported and paid by the Scheme (IBNR). The Scheme's long-term funding valuation is calculated and reviewed annually by the actuaries.

15. GUARANTEES RECEIVED BY THE SCHEME FROM A THIRD PARTY

None.

16. INVESTMENTS IN AND LOANS TO EMPLOYERS OF MEMBERS OF THE SCHEME AND TO OTHER RELATED PARTIES

Refer to related parties disclosure in Note 21 of the financial statements.

17. RELATED PARTY TRANSACTIONS

Refer to related parties disclosure in Note 21 of the financial statements. Trustee remuneration is disclosed in Note 22 of the annual financial statements.

18. SUBSEQUENT EVENTS

No events have occurred subsequent to the end of the accounting period to the date of this report that affect the annual financial statements that the Trustees consider should be brought to the attention of the members of the Scheme.

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

19. COMPLIANCE WITH THE MEDICAL SCHEMES ACT

The Trustees are of the opinion that there are no material deviations from the Act as a result of the Scheme having obtained the necessary exemptions from the Council for Medical Schemes to achieve compliance.

19.1. Outstanding contributions

Nature and impact

In terms of Section 26(7) of the Act, contributions should be received in accordance with the rules of the Scheme. Per the Scheme rules, contributions are required to be received at least three days after their due date. Instances were noted where contributions were received late.

Causes for failure

Balances after three days are due to reconciling discrepancies between the participating employers and the Scheme. The risk of default on payments due to the Scheme is small because of the restricted nature of the Scheme and employer base. The Trustees consider this to be immaterial.

Corrective action

Suspension policies are in place and applied where contributions are outstanding for individual paying members outside the participating employers' obligation.

19.2. Investment in participating employer

Nature and impact

Section 35(8)(a) of the Act states that a medical scheme shall not invest any of its assets in a participating employer. During the year the Scheme had exposure to investments in participating employer groups.

Causes for failure

The Scheme invests in pooled investment vehicles which allow investment managers discretion to invest in a combination of shares and bonds that will best achieve their stipulated benchmark. Given this approach, the Scheme was exposed to participating employer shares.

Corrective action

The Scheme has applied to the Council for Medical Schemes and received an exemption from this section of the Act.

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

19. COMPLIANCE WITH THE MEDICAL SCHEMES ACT (continued)

19.3. Investment in administrator

Nature and impact

Section 35(8)(c) of the Act states that a medical scheme shall not invest any of its assets in any administrator. During the year the Scheme had exposure to such investments.

Causes for failure

The Scheme invests in pooled investment vehicles which allow investment managers discretion to invest in a combination of shares and bonds that will best achieve their stipulated benchmark.

Corrective action

The Scheme has applied to the Council for Medical Schemes and received an exemption from this section of the Act.

19.4. Investment limitations

Nature and impact

Regulation 30(3) states that a medical scheme shall not invest more than 40% of its assets in local equities. The Scheme exceeded this limit throughout the year.

Causes for failure

The Act makes provision for medical schemes to exceed the limit of 40% on local equities under certain circumstances. The Board of Trustees decided to exceed the limit after complying with all the required circumstances. The purpose is to maximise investment income on a long-term basis.

Corrective action

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

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2016

19. COMPLIANCE WITH THE MEDICAL SCHEMES ACT (continued)

19.5. Sustainability of benefit options

Nature and impact

In terms of section 33(2) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance. At 31 December 2016, two of the three benefit options incurred deficits before investment income as set out in Note 23 to the annual financial statements.

Causes for failure

The Board of Trustees annually maintain market related benefit offerings and competitive contribution increases. Due to the Scheme demographics, this gives rise to the non-compliance.

Corrective action

Anglo American South Africa sold numerous subsidiaries over a period of time resulting in the loss of active employees and retention of pensioners. To compensate the Scheme for the resultant high pensioner ratio and expected deterioration of the claiming profile, the Participating Employers pre-funded the additional liability to the extent that the Scheme could maintain market related benefits and contribution increases into the future. The Scheme meets its responsibility to the members by subsidising the expected claims excess over contributions from the reserves. The Trustees believe that the current and expected future investment returns are sufficient to meet the shortfall.

The Council for Medical Schemes is aware of the Scheme's strategy and approves the benefits and contributions annually without any requirement to take further corrective action.

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

The Trustees are responsible for the preparation and fair presentation of the annual financial statements of the Anglo Medical Scheme (the Scheme), comprising the statement of financial position at 31 December 2016, 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 are comfortable that the financial statements are prepared in accordance with the going concern principal.

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.

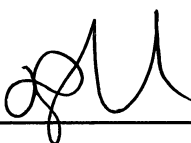
The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

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 5 April 2017 and are signed on their behalf by:



Mrs CC Elliott
Chairman



Mr D Ghavalas
Vice-Chairman



Ms FK Robertson
Principal Officer

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

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

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

BOARD OF TRUSTEES

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

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

INTERNAL CONTROL

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

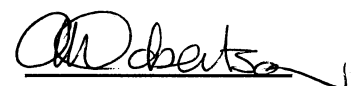
No event or item has come to the attention of the Board of Trustees that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review.



Mrs CC Elliott
Chairman



Mr D Ghavalas
Vice-Chairman



Ms FK Robertson
Principal Officer

5 April 2017



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 Internet kpmg.co.za

Independent Auditor’s Report

To the Members of Anglo Medical Scheme

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Anglo Medical Scheme (“the Scheme”), set out on pages 30 to 79, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, the statement of changes in funds and reserves and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Anglo Medical Scheme as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

Basis for Opinion

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

Key Audit Matters

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

Risk claims incurred

Refer to Notes 1.12 and 9 to the financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The most significant expense for the Scheme relates to risk claims incurred. Risk claims incurred is a key driver in determining the sustainability of the Scheme.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> We assessed the accuracy of benefit limits and rules captured onto the administration system by comparing the approved benefit limits and rules of the Scheme, to those captured onto the administration system.

Handwritten mark

KPMG Inc is a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

KPMG Inc is a Registered Auditor in public practice, in terms of the Auditing Profession Act, 26 of 2005.

Registration number 1999/021543/21

Policy Board:
 Chief Executive: TH Hoole

Executive Directors: M Letsitsi, SL Louw, NKS Malaba, M Oddy, CAT Smit

Other Directors: ZA Beseti, LP Fourie, N Fubu, AH Jaffer (Chairman of the Board), ME Magondo, F Mall, GM Pickering, JN Pierce

The company’s principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors’ names is available for inspection.

The key audit matter	How the matter was addressed in our audit
<p>Due to the significant volume of claims processed by the Scheme the payment of valid risk claims is dependent on the integrity of the Scheme's administration system, as well as the automated claim assessment controls.</p> <p>Risk claims incurred was considered a key audit matter due to the significant volume of claims processed during the year and the work effort required to be performed by the audit team.</p>	<ul style="list-style-type: none"> • We tested the IT controls in place to prevent unauthorised access to or changes to the administration system. • We tested, through the assistance of our own IT specialists, the automated claim assessment controls of the administration system to ensure that only valid claims were being processed and paid. • We inspected the reconciliation, performed by the Scheme administrator, between the administration system and the general ledger to assess whether the risk claims paid were accurately captured into the Scheme's accounting system.

Outstanding risk claims provision

Refer to Notes 1.7 and 5 to the financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The outstanding risk claims provision (the provision) is the Scheme's estimate of the ultimate cost of settling all risk claims incurred but not yet reported (IBNR) at the reporting date.</p> <p>The provision is determined by the Scheme's actuary as described in note 5 and is estimated using a range of statistical methods.</p> <p>Determining the provision requires judgement with regard to the assumptions applied in respect of measuring the outstanding risk claims provision which could materially affect the financial statements.</p> <p>Due to the involvement of the actuary and the significant estimation involved in determining the provision this was considered a key audit matter.</p>	<p>Our audit procedures performed included the following:</p> <ul style="list-style-type: none"> • We used our own actuarial specialists and: <ul style="list-style-type: none"> — evaluated the appropriateness of the methodology used in determining the provision. — challenged the appropriateness of the assumptions used in the Scheme's methodology for measuring the provision by evaluating the assumptions against best practice and the current economic environment. — assessed the competence, independence and integrity of the Scheme's actuary. — calculated our own estimation of the provision to confirm the reasonability of the Scheme's provision. • We further assessed the adequacy of the provision by comparing actual claims paid after year-end that related to the current year to the provision at year-end. • We assessed whether the disclosures in the financial statements were appropriate.

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Other Information

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

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

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

Responsibilities of the Scheme's Trustees for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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



related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on Other Legal and Regulatory Requirements

Non-compliance with the Medical Schemes Act of South Africa

As required by the Council for Medical Schemes, we report the following 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:

1. Contravention of Section 33 (2) of Act, options reporting a net healthcare deficit.

We draw your attention to note 27, instances of non-compliance with the Medical Schemes Act of South Africa for more detail.

KPMG Inc.

Per M Fouché
Chartered Accountant (SA)
Registered Auditor
5 April 2017

STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

ANGLO MEDICAL SCHEME
(Registration no. 1012)

	Notes	2016 R'000	2015 R'000
ASSETS			
Investments held at fair value through surplus or deficit	2	2,100,288	2,044,164
Trade and other receivables	3	4,205	8,929
Cash and cash equivalents		914,416	890,114
Medical Scheme funds	4.1	763,181	756,447
Medical Savings Account 'trust' funds	4.2	151,235	133,667
Total assets		3,018,909	2,943,207
FUNDS AND LIABILITIES			
Accumulated funds		2,841,128	2,781,628
Liabilities		177,781	161,579
Outstanding risk claims provision	5	16,066	16,982
Medical Savings Account 'trust' liability	6	153,266	135,816
Trade and other payables	7	8,449	8,781
Total funds and liabilities		3,018,909	2,943,207

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STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

ANGLO MEDICAL SCHEME
(Registration no. 1012)

	Notes	2016 R'000	2015 R'000
Risk contribution income	8	386,179	369,033
Relevant healthcare expenditure		(492,492)	(460,000)
Net claims incurred		(486,985)	(452,925)
Risk claims incurred	9	(488,260)	(454,468)
Third party claims recoveries		1,275	1,543
Net income on risk transfer arrangements	10	4,851	2,892
Risk transfer arrangement fees/premiums paid		(28,734)	(26,377)
Recoveries from risk transfer arrangements		33,585	29,269
Managed care: management services	11	(10,358)	(9,967)
Gross healthcare result		(106,313)	(90,967)
Administration expenses	12	(28,489)	(28,473)
Net impairment (losses)/gains	13	(510)	32
Net healthcare results		(135,312)	(119,408)
Investment and other income		223,167	119,133
Investment income	14	219,893	118,273
Medical Scheme assets		208,272	110,252
Medical Savings Account 'trust' funds		11,621	8,021
Sundry income	15	3,274	860
Other expenditure		(28,355)	(24,019)
Expenses for asset management services rendered		(16,734)	(15,998)
Interest paid on Medical Savings Accounts		(11,621)	(8,021)
Net surplus/(deficit) for the year		59,500	(24,294)
Other comprehensive income		-	-
Total comprehensive income/(deficit) for the year		59,500	(24,294)

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STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2016

ANGLO MEDICAL SCHEME
(Registration no. 1012)

	Accumulated funds R'000
Balance as at 1 January 2015	2,805,922
Total comprehensive deficit for the year	(24,294)
Balance as at 31 December 2015	2,781,628
Total comprehensive surplus for the year	59,500
Balance as at 31 December 2016	<u>2,841,128</u>



STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

ANGLO MEDICAL SCHEME
(Registration no. 1012)

	Notes	2016 R'000	2015 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows from operations before working capital changes	16	(135,314)	(119,408)
Working capital changes			
• Decrease/(increase) in trade and other receivables		4,220	(3,879)
• Increase in Medical Savings Account 'trust' liability		17,450	21,869
• (Decrease)/ increase in outstanding claims provision		(916)	2,771
• (Decrease)/increase in trade and other payables		(332)	102
Interest paid		(11,621)	(8,021)
Net cash flows from operating activities		(126,513)	(106,566)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments		(777,132)	(600,802)
Proceeds on sale of investments		815,324	613,777
Interest income		79,526	85,021
Dividend income		46,557	44,714
Sundry income		3,274	860
Expenses for asset management services rendered		(16,734)	(15,998)
Net cash flows from investing activities		150,815	127,572
NET INCREASE IN CASH AND CASH EQUIVALENTS		24,302	21,006
Cash and cash equivalents at the beginning of the year		890,114	869,108
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		914,416	890,114
Cash and cash equivalents comprise:		914,416	890,114
Medical Scheme funds		763,181	756,447
Medical Savings Account 'trust' funds		151,235	133,667

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GENERAL INFORMATION

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

The Scheme is a restricted membership medical scheme registered in terms of the Medical Schemes Act No.131 of 1998, as amended, (the Act) and is domiciled in South Africa.

1. PRINCIPAL ACCOUNTING POLICIES

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

1.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act of South Africa, which requires additional disclosures for registered medical schemes. The financial statements are prepared in accordance with the going concern principle using the historical cost basis except for investments carried at fair value through surplus or deficit.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out those areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the Scheme's financial statements (Note 26).

All monetary information and figures presented in the financial statements are in Rands, which is the Scheme's functional currency, rounded to the nearest thousand, unless otherwise indicated.

1.1 BASIS OF PREPARATION (continued)

New standards, amendments and interpretations effective in 2016 relevant to the Scheme:

Title	Effective date - financial year commencing on or after
IAS 1 - Disclosure initiatives - The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.	1 Jan 2016

New standards, amendments and interpretations not yet effective in 2016 relevant to the Scheme:

Title	Effective date - financial year commencing on or after
IFRS 9 - Financial Instruments - On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This standard will have a significant impact on the Scheme, which will include changes in the measurement bases of the Scheme's financial assets to amortised cost, fair value through other comprehensive income or fair value through surplus or deficit. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Scheme. The actual impact of adopting IFRS 9 on the Scheme's financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Scheme holds and the economic conditions at that time.	1 Jan 2018

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1.2 CLASSIFICATION, RECOGNITION, PRESENTATION AND DERECOGNITION OF FINANCIAL INSTRUMENTS

The Scheme recognises a financial instrument when, and only when, it becomes a party to the contractual provisions of the instrument. The Scheme classifies its financial instruments into the following categories: financial assets at fair value through surplus or deficit, loans and receivables and financial liabilities. The Scheme has grouped its financial instruments into the following classes:

- Investments held at fair value through surplus or deficit
- Trade and other receivables;
- Cash and cash equivalents;
- Trade and other payables; and
- Medical Savings Account 'trust' liability.

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

Offsetting financial instruments

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

Derecognition of financial assets and liabilities

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

If a transfer does not result in derecognition because the Scheme has retained substantially all the risks and rewards of ownership of the transferred asset, the Scheme continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, the Scheme recognises any income on the transferred asset and any expense incurred on the financial liability.

Where the Scheme neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Scheme determines whether it has retained control of the financial asset. In this case:

- (i) If the Scheme has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; and
- (ii) If the Scheme has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

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

1.3 FINANCIAL ASSETS

Initial and subsequent measurement

Financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Transaction costs for financial assets at fair value through surplus or deficit are expensed as incurred.

Investments

All purchases and sales of investments are recognised on the trade date that the Scheme commits to purchase or sell the asset. Costs of purchases include transaction costs.

Investments held at fair value through surplus or deficit are subsequently measured at fair value. Realised and unrealised gains and losses arising from a change in the fair value are recognised in surplus or deficit in the period in which they arise.

The fair value of the financial instruments traded in an active market is determined by reference to published indices on the JSE Limited.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Scheme's loans and receivables comprise trade and other receivables and cash and cash equivalents.

Loans and receivables are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

Insurance receivables

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

1.4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short-term, highly liquid instruments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

In the Statement of Cash Flows, cash and cash equivalents comprise:

- Money market instruments;
- Call accounts; and
- Current accounts.

Cash and cash equivalents include items held for the purpose of investing and meeting short-term cash commitments and are carried at cost, which, due to their short-term nature, approximates fair value.

1.5 IMPAIRMENT OF FINANCIAL ASSETS*Financial assets carried at amortised cost*

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

The Scheme first assesses whether objective evidence of impairment exists individually for financial assets such as service provider debtors. In the case of assets which are not individually significant, such as contribution debtors, financial assets are grouped on the basis of similar credit characteristics, such as asset type and past-due status. These characteristics are used in the estimation of future cash flows recoverable.

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

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

1.6 FINANCIAL LIABILITIES

Financial liabilities are initially recognised at fair value net of transaction costs incurred. After initial recognition, the financial liabilities are measured at amortised cost, using the effective interest method. In addition, the Scheme is not permitted to borrow, in terms of Section 35(6)(c) of the Act. The Scheme therefore has no long-term financial liabilities.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Insurance payables

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

Medical Savings Account 'trust' liabilities

Members' Medical Savings Accounts, which are managed by the Scheme on behalf of its members, represent savings contributions (which are a deposit component of the insurance contract), and accrued interest thereon, 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 separately presented, since the Scheme can measure the deposit component separately. The insurance component is recognised as an insurance liability.

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



1.6 FINANCIAL LIABILITIES (continued)

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

The members medical savings accounts are invested on behalf of members in money market instruments.

1.7 PROVISIONS

The Scheme recognises provisions once the following conditions are met:

- It has a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate of the amount of the obligation can be made.

Outstanding risk claims provision

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

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

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

1.8 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 3 years, are written back and are included under sundry income in surplus or deficit.

1.9 MEMBER INSURANCE CONTRACTS

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

The contracts issued compensate the Scheme's members for healthcare expenses incurred and are detailed in Note 24.



1.10 LIABILITY ADEQUACY TEST

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

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

1.11 RISK CONTRIBUTION INCOME

Gross contributions comprise risk contributions and Medical Savings Account (MSA) contributions.

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

1.12 RELEVANT HEALTHCARE EXPENDITURE

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

Risk Claims incurred

Gross 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 to pay from risk or MSA, whether or not reported by the end of the year.

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

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

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



1.12 RELEVANT HEALTHCARE EXPENDITURE (continued)

Risk transfer arrangements

Risk transfer arrangements are contractual arrangements whereby a third party undertakes to indemnify the Scheme against all or part of the loss that the Scheme may incur as a result of carrying on the business of a medical scheme. Risk transfer arrangements do not reduce the Scheme's primary obligations to its members and their dependants, but the arrangements decrease the loss the Scheme may incur as a result of carrying on the business of a medical scheme.

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

Risk transfer claims and benefits reimbursed are presented in surplus or deficit and in the Statement of Financial Position on a gross basis. Only contracts that give rise to a significant transfer of insurance risk are accounted for as a risk transfer arrangement. Amounts recoverable under such contracts are recognised in the same year as the related claim.

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

Managed care: Management services fees

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

1.13 INVESTMENT INCOME

Investment income comprises dividends and interest received and accrued on investments, interest on cash and cash equivalents and fair value movement on financial assets at fair value through surplus or deficit.

Interest income is recognised on the effective interest method.

Dividend income from investments is recognised when the right to receive payment is established - this is the ex dividend date for equity securities.

Fair value movement on financial assets at fair value through surplus or deficit include realised and unrealised gains and losses on disposal of assets and revaluation at fair value respectively. The gains and losses are recognised through the statement of comprehensive income in the period in which they arise.

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1.14 INTEREST PAID ON MEDICAL SAVINGS ACCOUNTS (MSA)

The interest paid on Medical Savings Accounts is recognised in surplus or deficit using the effective interest method.

1.15 LONG-TERM FUNDING

Additional contributions received from participating employers are intended to compensate for the above average cross-subsidisation of pensioners by active members. Amounts received from participating employers are recognised as other income on a cash receipts basis as there is no legal obligation to refund the amounts to the employer. Long-term funding is recognised in sundry income in surplus or deficit.

1.16 INCOME TAX

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

1.17 ALLOCATION OF INCOME AND EXPENDITURE TO BENEFIT OPTIONS

The following items are directly allocated to benefit options:

- Risk contribution income;
- Risk claims incurred;
- Risk transfer arrangement fees;
- Administration fees; and
- Managed care: management services.

For disclosure purposes, the remaining items are apportioned based on the number of members on each option, except for Value Care Plan which is allocated on an average of its proportion of contribution income and membership.

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	2016 R'000	2015 R'000
2. INVESTMENTS HELD AT FAIR VALUE THROUGH SURPLUS OR DEFICIT		
Fair value at the beginning of the year	2,044,164	2,069,379
Additions	777,132	600,802
Disposals	(687,972)	(546,238)
Movement on revaluation to market value	(33,036)	(79,779)
Fair value at the end of the year	<u>2,100,288</u>	<u>2,044,164</u>
The investments included above represent investments in:		
Bonds	678,956	617,397
Commodities	83,048	84,286
Listed equities	1,312,430	1,329,263
Derivatives	25,854	13,218
Fair value at the end of the year	<u>2,100,288</u>	<u>2,044,164</u>
The investments were managed by the following asset managers at year-end:		
Coronation Asset Management (Pty) Ltd	718,338	691,338
Allan Gray South Africa (Pty) Ltd	622,018	613,947
Investec Asset Management (Pty) Ltd	759,932	738,879
	<u>2,100,288</u>	<u>2,044,164</u>
Fair value at the end of the year includes cumulative unrealised gains	<u>-2,841,128</u>	<u>-2,781,628</u>

A register of investments is available at the registered office of the Scheme



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

ANGLO MEDICAL SCHEME

(Registration no. 1012)

	2016 R'000	2015 R'000
3. TRADE AND OTHER RECEIVABLES		
Insurance receivables		
Contribution receivables	2,192	5,928
Member and service provider claims receivable	943	583
Amount due	1,705	886
Less: Allowance for impairment	(762)	(303)
	3,135	6,511
Receivables arising from insurance contracts	3,135	6,511
Loans and receivables		
Interest receivable	274	778
Sundry accounts receivable	796	1,640
	1,070	2,418
Receivables arising from loans and receivables	1,070	2,418
Total trade and other receivables	4,205	8,929

At 31 December 2016, the carrying amounts of loans and receivables approximate their fair values due to the short-term maturities of these assets.

4. CASH AND CASH EQUIVALENTS**4.1 CASH AND CASH EQUIVALENTS - MEDICAL SCHEME ASSETS**

Call accounts	23,789	19,095
Current accounts	120,145	221,991
Money market accounts	619,247	515,361
	763,181	756,447
	763,181	756,447

The weighted average effective interest rate on cash and cash equivalents was 7.80% (2015 - 5.86%). The call accounts have an average maturity of 1 day (2015 - 1 day) as these are used as a clearing facility.



	2016 R'000	2015 R'000
4. CASH AND CASH EQUIVALENTS (continued)		
4.2 CASH AND CASH EQUIVALENTS - MEDICAL SAVINGS ACCOUNT 'TRUST' FUNDS		
Current accounts	2	13,071
Money market accounts	151,233	120,596
	<u>151,235</u>	<u>133,667</u>

The weighted average effective interest rate on cash and cash equivalents was 8.50% (2015 - 6.35%).

5. OUTSTANDING RISK CLAIMS PROVISION

Outstanding risk claims provision - not covered by risk transfer arrangements

	<u>16,066</u>	<u>16,982</u>
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Analysis of movement in outstanding risk claims provision

Balance at beginning of year	16,982	14,211
Payments in respect of prior year	(16,196)	(14,154)

Over provision in respect of prior year	786	57
Movement for the current year	15,280	16,925

Outstanding risk claims provision	<u>16,066</u>	<u>16,982</u>
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Analysis of outstanding risk claims provision

Estimated gross claims	17,476	18,649
Less: Estimated recoveries from MSA (Note 6)	(1,410)	(1,667)

Total outstanding risk claims provision at year end	<u>16,066</u>	<u>16,982</u>
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A liquidity adequacy test was performed and no additional provision was required.

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5. OUTSTANDING RISK CLAIMS PROVISION (continued)**Basis for determining the outstanding risk 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. The provision is determined as accurately as possible based on a number of assumptions which are outlined below.

Process used to determine the assumptions

The process used to determine the assumptions is intended to result in a realistic estimate of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies of historical claiming patterns to establish a "claims run-off" period per discipline. More emphasis is placed on recent information, particularly where current claims do not appear to follow prior year trends. Where, in prior years, there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

To the extent that historical claims development is used to determine the claims "run-off period", it is assumed that this pattern will occur again in future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons, inter alia, include:

- Changes in processes that affect the development or recording of claims paid and incurred (such as changes in claims submission mechanisms);
- Changes in membership profile of the Scheme;
- Random fluctuations; and
- Legislative changes (e.g. expansion of the definition of a Prescribed Minimum Benefit ("PMB")/Chronic Disease List ("CDL") condition).

Notified claims are assessed with due regard to the claim circumstances, medical discipline, anticipated development, expected seasonal fluctuations, and information available from managed care: management services (specifically hospital pre-authorisation). The provision is a best estimate based on the most recent information available and may be affected by the differing claims run-off periods between the various medical disciplines. Estimates calculated on the "run-off" period of disciplines with lower utilisations may be subject to a higher degree of volatility due to the relatively small claims history. This is largely negated by the medical disciplines where the majority of the risk claims are incurred and which therefore constitute the bulk of the provision.

Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding risk claims provision, are the claims "run-off periods" for the most recent benefit years (split by discipline), in particular the in-hospital category. The run-off factor relates to the emergence and settlement patterns of risk claims and is expressed as the percentage of risk claims settled in respect of total claims expected to emerge in a specific service month. This factor is then used to project the remainder of the outstanding risk claims relating to the specified service month. A "seasonality factor" is further incorporated into the calculation, also based on past claims experience. Consistent assumptions have been used for assessing the outstanding risk claims provisions for the 2015 and 2016 benefit years.

5. OUTSTANDING RISK CLAIMS PROVISION (continued)

Changes in assumptions

The table below outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. It should be noted that this is a deterministic approach with no correlations between the key variables. Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable in the future may be required.

An analysis of sensitivity around various scenarios for the general medical insurance business provides an indication of the adequacy of the estimation process. The Trustees believe that the liability for risk claims reported in the statement of financial position is adequate. However, they recognise that the process of estimation is based upon certain variables and assumptions which could differ when claims arise. Consequently, if for example the estimates of the unreceived portion of risk claims costs for the year was 5% inaccurate, the impact on the net surplus of the Scheme would be as follows:

Impact on reported profits due to changes in key variables:

	Change in variables	Change in claims cost 2016 R'000	Change in claims cost 2015 R'000
Hospitalisation	5%	71	84
Chronic medication	5%	26	30
Day-to-day benefits	5%	9	11

This analysis has been prepared for a change in run-off factors with other assumptions remaining constant. The change in liability also represents the absolute change in net surplus for the period. It should be noted that an increase in liabilities will result in a decrease in the surplus and vice versa.

Day-to-day claims have been calculated for the Standard Care Plan and the Managed Care Plan's portion that relates to prescribed minimum benefits (PMB's). Managed Care Plan claims paid from MSA are not included. Inflation is not a factor as retrospective inflation is known.

The sensitivity of the estimation process is reduced by the value of the risk claims paid subsequent to the year end related to the period ended 31 December 2016, as detailed in the table below:

	2016 R'000	2015 R'000
Outstanding risk claims provision	16,066	16,982
Portion of outstanding risk claims provision paid to 28 February 2017 (2015: 29 February 2016)	(13,949)	(14,473)
Residual estimate of risk claims incurred but not paid	<u>2,117</u>	<u>2,509</u>



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for the year ended 31 December 2016

ANGLO MEDICAL SCHEME

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	2016	2015
	R'000	R'000
6. MEDICAL SAVINGS ACCOUNT (MSA) 'TRUST' LIABILITY		
Balance on MSA liability at the beginning of the year	135,816	113,947
Add:		
MSA contributions received for the current year (Note 8)	78,816	77,822
Transfers received from other medical schemes	122	51
Interest earned on MSA 'trust' funds	11,621	8,021
Less:		
Claims paid to or on behalf of members (Note 9)	(63,809)	(59,066)
Refunds on death or resignation	(9,300)	(4,959)
Balance on MSA liability at the end of the year	<u>153,266</u>	<u>135,816</u>

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

In line with the requirements of Circular 38 of 2011 issued by the Council for Medical Schemes, the Scheme placed all MSA funds in a separate bank account and invested the funds in a money market account which are being referred to as 'trust' accounts as directed.

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

Estimated claims to be paid out of members' MSA in 2017 in respect of claims incurred in 2016 but not yet reported: (Note 5)

<u>1,410</u>	<u>1,667</u>
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Actual interest earned, net of related expenses, is paid on MSA. Investment of MSA 'trust' monies managed by the Scheme on behalf of its members, has been separately disclosed under note 14.

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

At 31 December 2016, the carrying amount of the MSA 'trust' liability approximates its fair value, since it is payable on demand. These amounts were not discounted to present values due to their demand feature.



	2016	2015
	R'000	R'000
7. TRADE AND OTHER PAYABLES		
Insurance liabilities		
Reported claims not yet paid	2,803	1,476
Stale cheques	567	747
Unpresented cheques	751	2,616
	<hr/>	<hr/>
Total liabilities arising from insurance contracts	4,121	4,839
Financial liabilities		
Balances due to related party - Discovery Health (Pty) Ltd	3,415	2,889
Accruals	861	601
Unallocated funds	52	452
	<hr/>	<hr/>
Total arising from financial liabilities	4,328	3,942
	<hr/>	<hr/>
Total trade and other payables	8,449	8,781

At 31 December 2016, the carrying amounts of other liabilities approximate their fair values due to the short-term maturities of these liabilities.

8. RISK CONTRIBUTION INCOME

Gross contributions per registered rules	464,995	446,855
Less: MSA contributions received*	(78,816)	(77,822)
	<hr/>	<hr/>
Risk contribution income per statement of comprehensive income	386,179	369,033

* The MSA contributions are received by the Scheme in terms of Regulation 10(1) and the Scheme's registered rules and held in 'trust' on behalf of its members. Refer to Note 6 for more detail on how these monies were utilised.



	2016 R'000	2015 R'000
9. RISK CLAIMS INCURRED		
Claims incurred excluding claims in respect of related risk transfer arrangements		
Current year claims per registered rules	503,204	467,340
Movement in outstanding risk claims provision	15,280	16,925
Over provision in respect of prior year (Note 5)	(786)	(57)
Adjustment for current year (Note 5)	16,066	16,982
Claims paid from MSA	(63,809)	(59,066)
	<u>454,675</u>	<u>425,199</u>
Claims incurred in respect of risk transfer arrangements		
<i>Netcare 911</i>		
Current year claims	2,067	2,007
<i>Prime Cure</i>		
Current year claims	8,785	6,287
<i>Centre for Diabetes and Endocrinology (CDE)</i>		
Current year claims	22,733	20,975
	<u>33,585</u>	<u>29,269</u>
Risk claims per statement of comprehensive income	<u><u>488,260</u></u>	<u><u>454,468</u></u>

	2016 R'000	2015 R'000
10. NET INCOME ON RISK TRANSFER ARRANGEMENTS		
Capitation fees paid to third party providers	(28,734)	(26,377)
Recoveries under risk transfer arrangements	33,585	29,269
	<u><u>4,851</u></u>	<u><u>2,892</u></u>
 Made up as follows:		
Netcare 911	127	146
Capitation fees paid	(1,940)	(1,861)
Recovery from service provider	2,067	2,007
 Risk transfer arrangement providing ambulance services (air and land) for members on the Scheme.		
Prime Cure	3,299	2,405
Capitation fees paid	(5,486)	(3,882)
Recovery from service provider	8,785	6,287
 Risk transfer arrangement providing an agreed structure of day-to-day benefits, including treatment of chronic conditions, for members registered on the Value Care Plan. The contract excludes the provision of treatment for hospital admissions above R150,000.		
Centre for Diabetes and Endocrinology	1,425	341
Capitation fees paid	(21,308)	(20,634)
Recovery from service provider	22,733	20,975
 Risk transfer arrangement covering treatment for members diagnosed with diabetes.		
	<u><u>4,851</u></u>	<u><u>2,892</u></u>

The Scheme has entered into selective risk transfer arrangements with these third party providers in order to reduce their exposure to claims risk and receive specialist case management. These arrangements form a relatively small component of the total claims cost of the Scheme.

Recoveries from service providers are calculated based on the services provided to members, multiplied by the Scheme's reimbursement rate.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

ANGLO MEDICAL SCHEME

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	2016	2015
	R'000	R'000
11. MANAGED CARE: MANAGEMENT SERVICES		
Chronic medicine management services	1,095	1,046
Disease management services	3,281	1,885
Hospital management services	2,727	4,427
Pharmaceutical benefit management services	880	1,281
Provider network management services	2,375	1,328
	<u><u>10,358</u></u>	<u><u>9,967</u></u>

Managed care services per discipline have been re-categorised for 2016, in order to comply with the Council for Medical Schemes accreditation standards for managed care organisations. This does not affect the comparative figures.

12. ADMINISTRATION EXPENSES

Administration fees	17,838	17,265
Staff costs	2,896	2,703
Principal Officer remuneration and related expenses	2,028	1,985
Consulting fees	1,670	1,693
Electronic checking fees	1,105	1,056
Trustee remuneration and considerations	967	1,120
Strategic actuarial project costs	-	764
Publications	579	532
Travel and entertainment	379	365
Audit fees	296	290
Council for Medical Schemes expenses	295	285
Head office rental and management fees	224	173
General expenses	212	242
	<u><u>28,489</u></u>	<u><u>28,473</u></u>

	2016 R'000	2015 R'000
13. NET IMPAIRMENT (LOSSES)/GAINS		
Insurance receivables		
Outstanding contributions	-	-
Movement in allowance account	-	206
Written off	-	(206)
Members claims debt	(140)	(313)
Movement in allowance account	(140)	(313)
Written off	-	-
Suppliers claims debt	(370)	345
Movement in allowance account	(320)	345
Written off	(50)	-
	(510)	32
14. INVESTMENT INCOME		
Medical Scheme funds		
Interest income on current accounts	2,132	1,797
Income on other	235,656	161,897
Interest income	65,269	75,981
Dividend income	46,557	44,714
Net realised gains on fair value adjustments	123,830	41,202
Unrealised losses on investments	(29,516)	(53,442)
	208,272	110,252
Medical Savings Account 'trust' funds		
Investment income on cash and cash equivalents	11,621	8,021
	219,893	118,273

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	2016 R'000	2015 R'000
15. SUNDRY INCOME		
Long-term funding	797	759
Prescribed income	2,477	101
	<u>3,274</u>	<u>860</u>
16. CASH FLOWS FROM OPERATING ACTIVITIES BEFORE WORKING CAPITAL CHANGES		
Net surplus/(deficit) for the year	59,500	(24,294)
Adjustments for:		
Investment income excluding fair value losses (Note 14)	(249,410)	(171,715)
Interest paid on Medical Savings Account 'trust' funds	11,621	8,021
Unrealised losses on investments (Note 14)	29,516	53,442
Sundry income (Note 15)	(3,274)	(860)
Expenses for asset management services rendered	16,734	15,998
Cash flows from operations before working capital changes	<u>(135,314)</u>	<u>(119,408)</u>

17. FIDELITY COVER

The Scheme participates in fidelity guarantee and Trustees professional indemnity insurance arranged by Anglo American South Africa Ltd amounting to USD 35 million.

18. COMMITMENTS AND CONTINGENT LIABILITIES

The Scheme does not have any commitments or contingent liabilities outstanding at 31 December 2016 (2015: Nil).

19. CONTINGENT ASSET

As at 31 December 2016, the Scheme had pending motor vehicle accident medical claims submitted to the Road Accident Fund (RAF) for assessment. This will only be accounted for when an amount is certain to be received from the RAF.

20. EVENTS AFTER THE REPORTING DATE

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

21. RELATED PARTY TRANSACTIONS

The Scheme is controlled by the Board of Trustees who are appointed by the participating employers or elected by the members of the Scheme.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board of Trustees and the Principal Officer.

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

Parties with significant influence over the Scheme

Administrator and managed care organisation

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



21. RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties

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

	2016	2015
	R'000	R'000
<i>Transactions with key management personnel</i>		
Statement of Comprehensive Income transactions		
Gross contributions received	1,110	1,358
Gross claims paid	923	1,196
Interest on MSA balances	8	19
Key management personnel remuneration	4,924	4,688
Trustee remuneration and considerations	967	1,120
Statement of Financial Position		
Medical Savings Account balances	88	290

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

<i>Transactions</i>	<i>Nature of transactions and their terms and conditions</i>
Gross contributions received	This constitutes the contributions paid by the related party as a member of the Scheme, in their individual capacity. All contributions were on the same terms as applicable to all members.
Gross claims paid	This constitutes amounts claimed by the related parties, in their individual capacity as members of the Scheme. All claims were paid out in terms of the rules of the Scheme, as applicable to all members.
Interest on MSA balances	Interest is earned on positive MSA balances at an average effective interest rate of 8,50% (2015: 6,35%) per annum.
Medical Savings Account balances	The amounts owing to the related parties relate to MSA balances to which the parties have a right. In line with the terms applied to all members, the balances earn interest monthly at predetermined interest rates, on an accrual basis. The amounts are all current and are payable on demand if an appropriate claim is issued, or if the member resigns from the Scheme, as applicable to all members.

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21. RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties (continued)

	2016	2015
	R'000	R'000
Discovery Health (Pty) Ltd - Administrator		
Statement of Comprehensive Income transactions		
Administration fees	17,838	17,265
Statement of Financial Position		
Balance due to Discovery Health (Pty) Ltd	2,696	2,188
Discovery Health (Pty) Ltd - Managed care organisation		
Statement of Comprehensive Income transactions		
Managed care: management services	8,798	8,538
Statement of Financial Position		
Balance due to Discovery Health (Pty) Ltd	719	701

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

Administration and managed care agreements

The administration and managed care management service agreements are in terms of the rules of the Scheme and in accordance with instructions given by the Board of Trustees. The agreements are automatically renewed each year unless notification of termination is received or following the cancellation of the Administrator's accreditation or the issue of a lawful directive to this effect by the Council for Medical Schemes in terms of the Act. The Scheme and the Administrator/Managed Healthcare Organisation shall be entitled to terminate the agreement by giving notice in writing of not less than 90 days and not more than 180 days. The outstanding balance bears no interest and is due within 7 days.

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22. TRUSTEE REMUNERATION AND CONSIDERATIONS

Trustees	Fees for meeting attendance		Disbursements		Accommodation, travelling and meals		Conference fees		Total	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000	2016 R'000	2015 R'000	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Abramowitz D*	5	-	-	-	-	-	-	-	5	-
Barber DD	41	73	12	12	-	-	-	-	53	85
du Bois MA*	92	142	-	-	24	37	-	8	116	187
Elliott CC*	26	36	-	-	-	-	-	-	26	36
Farrell MR*	32	68	-	-	3	-	-	-	35	68
Fox FH	93	104	12	-	5	12	-	8	110	124
Ghavalas D*	111	87	-	-	4	3	-	-	115	90
Graham MD	55	70	12	12	4	-	-	-	71	82
Hosking S*	55	28	-	-	18	17	-	-	73	45
Howell GA*	35	64	-	-	-	-	-	-	35	64
Laubscher PA*	42	48	-	-	-	-	-	-	42	48
Liston J*	57	52	-	-	4	3	-	-	61	55
Mason-Gordon N*	27	32	-	-	-	-	-	-	27	32
McCallum DR*	74	61	-	-	4	12	-	8	78	81
Mckie Thomson CC	57	53	6	6	4	3	-	-	67	62
Preston GJ	-	19	-	5	-	7	-	-	-	31
Van der Bijl B*	5	-	-	-	-	-	-	-	5	-
Welz M*	48	30	-	-	-	-	-	-	48	30
TOTAL	855	967	42	35	70	94	-	24	967	1,120

* Trustees fees ceded to employers

23. SURPLUS/(DEFICIT) PER BENEFIT OPTION

2016	MANAGED CARE PLAN R'000	STANDARD CARE PLAN R'000	VALUE CARE PLAN R'000	TOTAL R'000
Risk contribution income	237,143	142,854	6,182	386,179
Relevant healthcare expenditure	(326,949)	(160,035)	(5,508)	(492,492)
Net claims incurred	(322,085)	(156,093)	(8,807)	(486,985)
Risk claims incurred	(322,946)	(156,507)	(8,807)	(488,260)
Third party claims recoveries	861	414	-	1,275
Net income on risk transfer arrangements	1,003	549	3,299	4,851
Risk transfer arrangement fees/premiums paid	(15,024)	(8,224)	(5,486)	(28,734)
Recoveries from risk transfer arrangements	16,027	8,773	8,785	33,585
Managed care: management services	(5,867)	(4,491)	-	(10,358)
Gross healthcare result	(89,806)	(17,181)	674	(106,313)
Administration expenses	(15,778)	(12,112)	(599)	(28,489)
Net impairment losses	(282)	(217)	(11)	(510)
Net healthcare results	(105,866)	(29,510)	64	(135,312)
Investment and other income	127,683	87,058	8,426	223,167
Other expenditure	(16,222)	(11,062)	(1,071)	(28,355)
Net surplus for the year	5,595	46,486	7,419	59,500
Number of members at year-end	4,767	3,753	529	9,049

23. SURPLUS/(DEFICIT) PER BENEFIT OPTION (continued)

2015	MANAGED CARE PLAN R'000	STANDARD CARE PLAN R'000	VALUE CARE PLAN R'000	TOTAL R'000
Risk contribution income	234,643	129,638	4,752	369,033
Relevant healthcare expenditure	(315,991)	(139,890)	(4,119)	(460,000)
Net claims incurred	(310,509)	(135,892)	(6,524)	(452,925)
Risk claims incurred	(311,585)	(136,358)	(6,525)	(454,468)
Third party claims recoveries	1,076	466	1	1,543
Net income on risk transfer arrangements	320	167	2,405	2,892
Risk transfer arrangement fees/premiums paid	(14,777)	(7,718)	(3,882)	(26,377)
Recoveries from risk transfer arrangements	15,097	7,885	6,287	29,269
Managed care: management services	(5,802)	(4,165)	-	(9,967)
Gross healthcare result	(81,348)	(10,252)	633	(90,967)
Administration expenses	(16,275)	(11,705)	(493)	(28,473)
Net impairment losses	18	13	1	32
Net healthcare results	(97,605)	(21,944)	141	(119,408)
Investment and other income	68,161	46,474	4,498	119,133
Other expenditure	(13,742)	(9,370)	(907)	(24,019)
Net (deficit)/surplus for the year	(43,186)	15,160	3,732	(24,294)
Number of members at year-end	5,033	3,678	437	9,148

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24. INSURANCE RISK MANAGEMENT REPORT

Nature and extent of risks arising from insurance contracts

The Scheme issues contracts that transfer insurance risk. The primary insurance activity carried out by the Scheme indemnifies covered members and their dependants against the risk of loss arising as a result of the occurrence of a health event, in accordance with the Scheme Rules and legislative requirements.

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

Insurance risk

The risk under any insurance contract can be expressed as the probability that an insured event occurs, multiplied by the expected amount of the resulting claim. Insurance events are random and therefore the actual number and size of events during any year are unknown and vary from those estimated. The principal risk that the Scheme faces under its insurance contracts is that the actual claim payments exceed the projected amount of the insurance liabilities. This could occur because the frequency and severity of claims are greater than estimated.

A larger number of members will result in smaller variability of the actual claims experience relative to expected levels. This is because adverse experience is diluted by a larger group of members whose claims are more stable and thus predictable.

Factors that aggravate insurance risk include unanticipated demographic movements, adverse experience due to an unexpected epidemic, changes in members' disease profiles, unexpected price increases, prevalence of fraud, supplier-induced demand and the cost of new technologies or drugs.

The risks that the Scheme faces can be discussed for the different benefits offered. The three main types of benefits offered by the Scheme in return for monthly contributions are indicated below:

Hospital benefits

In-hospital benefits cover all costs incurred by members, while they are in hospital to receive authorised treatment for certain medical conditions. This includes accommodation, theatre, professional services, medication, equipment and consumables.

Chronic benefits

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

Day-to-day benefits

Day-to-day benefits cover the cost of out of hospital medical attention, such as visits to general practitioners, dentists and specialists as well as prescribed non-chronic medicines other than those funded from members' savings accounts.

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24. INSURANCE RISK MANAGEMENT REPORT (continued)

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

Hospital benefit risk

The main factors affecting the frequency and severity of hospital claims are the number of admissions and the cost per event. An increase in the frequency and severity of claims result in an increase in the cost of claims.

An increase in the admission rate is often linked to increases in the number of beneficiaries at older ages. The increase in cost per event is driven by annual tariff and other cost increases. An increased cost per event can also be caused by an increased case-mix, severity of admissions and the introduction of new hospital-based technologies.

The following table shows various factors that impact hospital claims:

Key indicators	2016	2015	% Increase/ (decrease)
Length of stay (days)	3.92	3.88	1.0%
Average hospital cost per admission (R)	28,652	27,970	2.4%
Total cost per event (R)	43,345	41,280	5.0%
Total cost per life per month (R)	836	793	5.4%
Admissions per 1 000 lives	29	28	2.9%

Chronic benefit risk

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

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

Key indicators	2016	2015	% Increase/ (decrease)
Claimants per 1 000 lives	78.55	78.65	(0.1%)
Amount paid per life per month	2,201	2,050	7.4%



24. INSURANCE RISK MANAGEMENT REPORT (continued)

Day-to-day benefit risk

The main factors impacting the frequency and severity of day-to-day claims are the number of claimants and the cost per claimant. An increase in the cost of claims results from an increase in the frequency and/or severity of claims. The mix of members between the different benefit options will also have an impact on the claims.

Risk management

The Scheme has various initiatives that are used to manage risks associated with claims experience. These include:

- All hospital admissions have to be authorised. There have also been amendments to the pre-authorisation length of stay benchmarks;
- Case managers monitor members with hospital stays that are longer than expected to ensure that members are discharged at appropriate times; and
- Out-of-hospital programs addressing risk and preventing re-admissions;
- Protocols guiding access to expensive technologies and medication.

Concentration of insurance risk

The following table summarises the concentration of insurance risk per beneficiary per annum, with reference to the carrying amount, net of adjustments, of the insurance claims incurred by age group and in relation to the type of risk covered/benefits provided:

2016		Hospital	Chronic	Day-to-day	Total
Age grouping (in years)		R	R	R	R
< 26		4,446	300	2,080	6,826
26 - 35		6,978	458	4,210	11,646
36 - 50		8,564	1,347	5,599	15,510
51 - 65		19,538	3,113	8,109	30,760
> 65		36,624	4,511	10,243	51,378

2015		Hospital	Chronic	Day-to-day	Total
Age grouping (in years)		R	R	R	R
< 26		4,083	279	1,813	6,175
26 - 35		5,846	537	3,943	10,326
36 - 50		8,058	1,397	4,848	14,303
51 - 65		18,059	3,087	7,372	28,518
> 65		33,308	4,198	8,848	46,354

24. INSURANCE RISK MANAGEMENT REPORT (continued)

Risk transfer arrangements

The Scheme has three risk transfer agreements in which suppliers are paid to provide certain minimum benefits to Scheme members. These arrangements fix the cost to the Scheme of providing these benefits.

The first risk transfer arrangement covers day to day expenditure, including treatment of chronic conditions, and hospital admissions under R150,000 for members on the Value Care Plan. The second arrangement (Netcare 911), provides emergency transport to all members and the third arrangement with CDE covers the treatment for members diagnosed with diabetes (type I and II).

Risk in terms of risk transfer arrangements

The Scheme does however remain liable to its members to provide the benefits. If any supplier fails to meet the obligations of the risk transfer arrangement, the Scheme will cover the cost of the benefit.

When selecting a supplier, the Scheme assesses their ability to provide the relevant service. The Scheme also monitors the performance of the suppliers, assesses the quality of care provided and has access to data on the underlying fee-for-service claims that are included in the arrangement.

Claims development

Detailed claims development tables are not presented as the uncertainty regarding the amount and timing of claim payments is typically resolved within one year and in the majority of cases within three months. At year end, a provision is made for those claims outstanding that are not yet reported at that date.

The methodology followed in determining the outstanding claims provision is the generally accepted actuarial methodology of chain ladder estimation. This methodology is the most objective, but the accuracy of the estimate is sensitive to changes in the average time from treatment to payment of claims. For hospital claims in the latest service month, another method using the estimated cost per event and pre-authorized admissions is also utilised/applied.

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

Impact on the outstanding claims provision and reported surplus or deficit caused by changes in key variables:

	Change in variable	2016 R'000	2015 R'000
In-hospital claims incurred		71	84
Out-of-hospital claims incurred	5% change in claims cost	26	30
Chronic claims incurred		9	11

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25. FINANCIAL RISK MANAGEMENT REPORT

Overview

The Scheme is exposed to financial risk through its financial assets, financial liabilities and insurance liabilities. In particular the financial risk is that the proceeds, for any reason, from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of financial risk include market risk, interest rate risk, credit risk and liquidity risk.

The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments that the Scheme holds to meet its obligations to its members.

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

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

The Scheme manages the financial risks as follows:

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

Medical Savings Account 'trust' funds

The Scheme appointed an asset manager, Investec Asset Management, to manage the assets underlying the members' Medical Savings Account balances. The portfolio is managed in accordance with Circular 38 of 2011 and Circular 5 of 2012 issued by the Council for Medical Schemes.

Changes in interest rates have no bearing on the Scheme's surplus or deficit as the investment income earned, net of fees, is allocated to the members' Medical Savings Account balance. Consequently, no further analysis is presented.



25. FINANCIAL RISK MANAGEMENT REPORT (continued)

Market risk

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

The Scheme's insurance liabilities are settled within one year and the Scheme does not discount insurance liabilities. Consequently, changes in market interest rates would not affect the Scheme's surplus or deficit arising from changes in the insurance liability.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Scheme operates in South Africa and therefore its cash flows are denominated in South African Rand (ZAR). In terms of the diversified investment strategy operated by the investment committee and the restrictions imposed by the Medical Schemes Act, the Scheme has a relatively small number of investments off-shore. The Scheme is exposed to foreign exchange risk arising from currency exposures. 3,4% (2015: 3,6%) of total investments were invested in foreign investments.

The following table illustrates the concentration of direct currency risk to which the Scheme is currently exposed:

As at 31 December 2016	ZAR R'000	Foreign currency R'000	TOTAL R'000
Investments held at fair value through surplus or deficit	2,100,288	-	2,100,288
Cash and cash equivalents	815,483	98,933	914,416
	<u>2,915,771</u>	<u>98,933</u>	<u>3,014,704</u>
As at 31 December 2015	ZAR R'000	Foreign currency R'000	TOTAL R'000
Investments held at fair value through surplus or deficit	2,044,164	-	2,044,164
Cash and cash equivalents	787,999	102,115	890,114
	<u>2,832,163</u>	<u>102,115</u>	<u>2,934,278</u>

There has been significant movement in the ZAR against major currencies during the year. Holding all other variables constant, and adjusting currencies with 10% for the year, the below table illustrates the impact to the value of investments of the Scheme:

	% ZAR weakening	2016 R'000	2015 R'000
Foreign currency	10%	9,893	10,212

25. FINANCIAL RISK MANAGEMENT REPORT (continued)

Equity risk

Equity risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market place.

Equities are reflected at market values, which are susceptible to fluctuations. The Scheme manages its equity risk by employing the following procedure:

- Mandating a specialist fund manager to invest in equities, where there is an active market and where access is gained to a broad spectrum of financial information relating to the companies invested in;
- Diversifying across many securities to reduce risk. Diversification is guided by the Medical Schemes Act;
- Considering the risk-reward profile of holding equities and bearing the risk in order to obtain higher expected returns on assets.

If the South African equities market were to move by 10%, assuming all other variables remain constant, and the recent past is predictive of the future, the below table illustrates the impact to the value of investments of the Scheme:

	% SA market movement	2016 R'000	2015 R'000
Investments held at fair value through surplus or deficit: Equities	10%	131,243	132,926

25. FINANCIAL RISK MANAGEMENT REPORT (continued)

Interest rate risk

Interest rate risk is the exposure that the Scheme has to changes in interest rates. As the Scheme holds no debt with the exception of the members' saving liability on which interest is paid, the main exposure to the Scheme would be a reduction in interest income on investments if interest rates were to decrease. In order to reduce the impact of any potential interest rate changes, the Scheme holds a diversified portfolio of both long and short term investments.

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

	0 - 3 months R'000	3 - 12 months R'000	> 12 months R'000	Total R'000
As at 31 December 2016				
Cash and cash equivalents	912,283	1,327	806	914,416
Investments held at fair value through surplus or deficit	1,521,525	5,037	573,726	2,100,288
As at 31 December 2015				
Cash and cash equivalents	848,243	16,987	24,884	890,114
Investments held at fair value through surplus or deficit	1,534,192	5,975	503,997	2,044,164

Cash and cash equivalents include investments with Coronation Asset Managers (Pty) Ltd which have cash instruments with a maturity date of 2018 and 2021. These are marketable easily convertible investments.

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

	2016 %	2015 %
Cash and cash equivalents - Medical Scheme Assets	7.80%	5.86%
Cash and cash equivalents - Medical Savings Account 'Trust' Funds	8.50%	6.35%

A change of 100 basis points in interest rates at the reporting date would have an effect on surplus or deficit by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2015.

	% change in interest rates	2016 R'000	2015 R'000
Cash and cash equivalents - Medical Scheme Assets	1%	8,641	13,273
Cash and cash equivalents - Medical Savings Account 'Trust' Funds	1%	1,367	1,263

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25. FINANCIAL RISK MANAGEMENT REPORT (continued)

Fair value estimation

The fair value of publicly traded financial instruments held as investments at fair value through surplus or deficit, is based on quoted market prices at the statement of financial position date. As such, all financial assets are considered level 1 assets.

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

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

Capital management

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

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

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

	2016 R'000	2015 R'000
Total Members' Funds per the Statement of Financial Position	2,841,128	2,781,628
Less: cumulative unrealised net gain on measurement of investments to fair value	(380,425)	(409,951)
Accumulated funds per Regulation 29	2,460,703	2,371,677
Gross contribution income (R'000)	464,995	446,855
Solvency margin = Accumulated funds/gross contribution income x 100	529.19%	530.75%

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25. FINANCIAL RISK MANAGEMENT REPORT (continued)

Investment risk

Investment risk is the risk that the investment returns on accumulated assets will not be sufficient to cover future liabilities. Continuous monitoring takes place to ensure that appropriate assets are held where the Scheme's liabilities are dependent upon the performance of the investment portfolio and that a suitable match of assets exists for all liabilities.

The Scheme's investment objectives are to maximise the return on its investments on a long-term basis at minimal risk, subject to any constraints imposed by legislation or the Board of Trustees. The Scheme diversifies its investment portfolio by investing in short-term deposits, bond, money market and equity portfolios managed by reputable asset managers.

To assist the Regulator in monitoring the Scheme's compliance with Annexure B of the Act, the Scheme submits detailed investment schedules to the Council for Medical Schemes, supplemented by the Scheme's asset manager's reports on a quarterly basis.

25. FINANCIAL RISK MANAGEMENT REPORT (continued)

Breakdown of investments

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

	Financial assets and liabilities at fair value through surplus or deficit	Loans and receivables	Insurance receivables and (payables)	Financial assets/ liabilities at amortised cost	Total carrying amount	Fair value amount
As at 31 December 2016	R'000	R'000	R'000	R'000	R'000	R'000
Investments						
Held at fair value through surplus or deficit	2,100,288	-	-	-	2,100,288	2,100,288
Cash and cash equivalents						
Medical Scheme assets	-	763,181	-	-	763,181	763,181
Medical Savings Account 'trust' assets	-	151,235	-	-	151,235	151,235
Trade and other receivables	-	1,070	3,135	-	4,205	4,205
Medical Savings Account 'trust' liability	-	-	(153,266)	-	(153,266)	(153,266)
Trade and other payables	-	-	(4,121)	(4,328)	(8,449)	(8,449)
	<u>2,100,288</u>	<u>915,486</u>	<u>(154,252)</u>	<u>(4,328)</u>	<u>2,857,194</u>	<u>2,857,194</u>
As at 31 December 2015	R'000	R'000	R'000	R'000	R'000	R'000
Investments						
Held at fair value through surplus or deficit	2,044,164	-	-	-	2,044,164	2,044,164
Cash and cash equivalents						
Medical Scheme assets	-	756,447	-	-	756,447	756,447
Medical Savings Account 'trust' assets	-	133,667	-	-	133,667	133,667
Trade and other receivables	-	2,418	6,511	-	8,929	8,929
Medical Savings Account 'trust' liability	-	-	(135,816)	-	(135,816)	(135,816)
Trade and other payables	-	-	(4,839)	(3,942)	(8,781)	(8,781)
	<u>2,044,164</u>	<u>892,532</u>	<u>(134,144)</u>	<u>(3,942)</u>	<u>2,798,610</u>	<u>2,798,610</u>

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25. FINANCIAL RISK MANAGEMENT REPORT (continued)

Assets measured at fair value

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

- Level 1: Quoted market price (unadjusted in an active market for an identical instrument);
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data; and
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Scheme's financial instruments, measured at fair value at the end of the reporting period, are all categorised as Level 1 investments.

Credit risk

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

Key areas where the Scheme is exposed to credit risk are:

- Trade and other receivables comprising insurance receivables and loans and receivables. The main components of insurance receivables are in respect of contributions due from members and amounts recoverable from members and suppliers in respect of claims debt. The Scheme has exposure from its loans and receivables.
- Financial assets are valued at fair value through surplus or deficit. These assets comprise bond instruments, commodities and equities. The Scheme is exposed to the issuer's credit standing on these instruments. Exposure to credit risk is monitored and minimum credit ratings for these investments are set. Reputable asset managers have been appointed to manage these instruments; and
- Cash and cash equivalents comprise of fixed deposits, deposits held on call with banks and other short term liquid investments. The risks associated with these deposits are managed by monitoring the Scheme's exposure to external financial institutions against approved deposit limits per institution. Information regarding the credit quality of cash and cash equivalents is provided on page 52.

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25. FINANCIAL RISK MANAGEMENT REPORT (continued)

Credit risk (continued)

The Scheme's Trade and other receivables at 31 December comprise:

	2016 R'000	2015 R'000
Insurance receivables	3,135	6,511
Contributions receivable (a)	2,192	5,928
Member and service provider claims receivables (b)	1,705	886
Less: Allowance for Impairment losses	(762)	(303)
Loans and receivables	1,070	2,418
Interest receivable	274	778
Sundry accounts receivable	796	1,640

- a. Contributions receivable are not credit rated by the Scheme as exposure to any single member is insignificant. Contributions receivable comprise amounts receivable from individuals and corporates and are collected by means of debit orders or cash payments. They are actively pursued if not received within three days of becoming due. Benefits are suspended on member accounts when contributions have not been received for 30 days and membership are terminated when contributions have not been received for 60 days.
- b. Member and service provider claims receivable are amounts recoverable in respect of claims debt. They are not credit rated by the Scheme as exposure to any single party is insignificant. Member receivables are separated between active and withdrawn members.

Exposure to credit risk

The carrying amount of Trade and other receivables represents the maximum credit exposure.

The Scheme ages and pursues unpaid accounts on a monthly basis. The tables below highlight insurance receivables within Trade and other receivables which are due, past due (by number of days) and impaired.

Insurance receivables	Gross 2016 R'000	Impairment 2016 R'000	Gross 2015 R'000	Impairment 2015 R'000
Not past due	2,717	-	6,076	-
Past due 0 - 30 days	135	-	194	-
Past due 31 - 60 days	104	-	34	-
Past due 61 - 150 days	367	326	145	144
151 days to more than 1 year	574	436	365	159
	3,897	762	6,814	303

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25. FINANCIAL RISK MANAGEMENT REPORT (continued)

Credit risk (continued)

Impairment losses

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 expected difference between the current carrying amount and the amount recoverable from the counterparties.

Below is the movement in the impairment for each component of Trade and other receivables during the year ended 31 December:

	Insurance receivables		Total
	Contribution debtors	Member and service provider claims debtors	
	R'000	R'000	R'000
Balance as at 1 January 2015	206	335	541
Movement in impairment allowance	-	(32)	(32)
Amounts utilised during the year	(206)	-	(206)
Balance as at 31 December 2015	-	303	303
Balance as at 1 January 2016	-	303	303
Movement in impairment allowance	-	509	509
Amounts utilised during the year	-	(50)	(50)
Balance as at 31 December 2016	-	762	762

Based on past experience, the Scheme believes that no provision for impairment is required in respect of Contribution debtors. For member and service provider claims debtors that are past due and outstanding for less than 90 days, past experience has indicated that no provision is required.

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25. FINANCIAL RISK MANAGEMENT REPORT (continued)

Credit risk (continued)

Credit quality

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

	2016 R'000	2015 R'000
Insurance receivables		
Contributions receivable	2,192	5,927
Member and service provider claims receivable		
Active member claims receivable	189	40
Withdrawn member claims receivable	301	23
Service provider claims receivable	453	314
	3,135	6,304

Contribution receivables

The Scheme collected over 99% (2015: 99%) of outstanding debt in January 2017. Therefore we can reasonably establish that the credit quality of contribution debtors is high. Consequently no additional disclosure of the credit quality is provided.

Active member claim receivables

These debtors are active members of the Scheme. No further provision for impairment is therefore

Withdrawn member claim receivables

These amounts are due from members that have withdrawn from the Scheme. An impairment allowance covering 40% (2015: 67%) of the total amount due has been raised and the Trustees are satisfied that this is adequate.

Service provider claim receivables

These debtors are the healthcare providers of the Scheme. The amounts due to the Scheme are offset against future payments to be made to these providers. An impairment allowance covering 55% (2015: 23%) of the total amount due has been raised and the Trustees are satisfied that this is adequate.

	2016 R'000	2015 R'000
Cash and cash equivalents		
Invested with counterparties with high quality credit ratings	914,416	890,114

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25. FINANCIAL RISK MANAGEMENT REPORT (continued)

Liquidity risk

Liquidity risk is the risk that the Scheme will not have sufficient liquid funds available to settle financial obligations as they fall due.

The Scheme's approach to managing liquidity is to ensure, with significant conservative margin, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Scheme's reputation. In order to meet the objectives of enhancing returns while also providing high liquidity, the combined Scheme portfolios have explicit constraints that guarantee liquidity of at least 20% of the Scheme assets within a period of one week.

The Scheme has complied with the requirements regarding the nature and categories of assets as prescribed by Section 35 and Regulation 30 of the Act.

Approximately 99% of the Scheme's insurance claim liabilities are settled within three months after the claim was incurred and the balance of the claims liability is settled within six months.

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

	Less than 1 month R'000	Between 2 and 4 months R'000	More than 4 months R'000	Total R'000
As at 31 December 2016				
Medical Savings Account 'trust' liability	1,587	2,224	149,455	153,266
Trade and other payables	8,449	-	-	8,449
Outstanding risk claims provision	11,742	4,275	49	16,066
As at 31 December 2015				
Medical Savings Account 'trust' liability	839	1,176	133,801	135,816
Trade and other payables	8,781	-	-	8,781
Outstanding risk claims provision	12,052	4,885	45	16,982

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26. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Scheme makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Outstanding claims provision

The critical estimates and judgements relating to the outstanding claims provision are set out under Note 5.

Other risk transfer arrangements

The critical estimates and judgements relating to other risk transfer arrangements are set out under Note 10.

27. COMPLIANCE WITH THE MEDICAL SCHEMES ACT

The Trustees are of the opinion that there are no material deviations from the Act as a result of the Scheme having obtained the necessary exemptions from the Council for Medical Schemes to achieve compliance.

27.1 Outstanding contributions

Nature and impact

In terms of Section 26(7) of the Act, contributions should be received in accordance with the rules of the Scheme. Per the Scheme rules, contributions are required to be received at least three days after their due date. Instances were noted where contributions were received late.

Causes for failure

Balances after three days are due to reconciling discrepancies between the participating employers and the Scheme. The risk of default on payments due to the Scheme is small because of the restricted nature of the Scheme and employer base. The Trustees consider this to be immaterial.

Corrective action

Suspension policies are in place and applied where contributions are outstanding for individual paying members outside the participating employers' obligation.

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27. COMPLIANCE WITH THE MEDICAL SCHEMES ACT (continued)

27.2 Investment in participating employer

Nature and impact

Section 35(8)(a) of the Act states that a medical scheme shall not invest any of its assets in a participating employer. During the year the Scheme had exposure to investments in participating employer groups.

Causes for failure

The Scheme invests in pooled investment vehicles which allow investment managers discretion to invest in a combination of shares and bonds that will best achieve their stipulated benchmark. Given this approach, the Scheme was exposed to participating employer shares.

Corrective action

The Scheme has applied to the Council for Medical Schemes and received an exemption from this section of the Act.

27.3 Investment in administrator

Nature and impact

Section 35(8)(c) of the Act states that a medical scheme shall not invest any of its assets in any administrator. During the year the Scheme had exposure to such investments.

Causes for failure

The Scheme invests in pooled investment vehicles which allow investment managers discretion to invest in a combination of shares and bonds that will best achieve their stipulated benchmark.

Corrective action

The Scheme has applied to the Council for Medical Schemes and received an exemption from this section of the Act.

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27. COMPLIANCE WITH THE MEDICAL SCHEMES ACT (continued)

27.4 Investment limitations

Nature and impact

Regulation 30(3) states that a medical scheme shall not invest more than 40% of its assets in local equities. The Scheme exceeded this limit throughout the year.

Causes for failure

The Act makes provision for medical schemes to exceed the limit of 40% on local equities under certain circumstances. The Board of Trustees decided to exceed the limit after complying with all the required circumstances. The purpose is to maximise investment income on a long-term basis.

Corrective action

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

27.5 Sustainability of benefit options

Nature and impact

In terms of section 33(2) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance. At 31 December 2016, two of the three benefit options incurred deficits before investment income as set out in Note 23 to the annual financial statements.

Causes for failure

The Board of Trustees annually maintain market related benefit offerings and competitive contribution increases. Due to the Scheme demographics, this gives rise to the non-compliance.

Corrective action

Anglo American South Africa sold numerous subsidiaries over a period of time resulting in the loss of active employees and retention of pensioners. To compensate the Scheme for the resultant high pensioner ratio and expected deterioration of the claiming profile, the Participating Employers pre-funded the additional liability to the extent that the Scheme could maintain market related benefits and contribution increases into the future. The Scheme meets its responsibility to the members by subsidising the expected claims excess over contributions from the reserves. The Trustees believe that the current and expected future investment returns are sufficient to meet the shortfall.

The Council for Medical Schemes is aware of the Scheme's strategy and approves the benefits and contributions annually without any requirement to take further corrective action.

