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Government Employees
Medical Scheme

ANNUAL REPORT 2016

ANNUAL FINANCIAL STATEMENTS

Working towards a healthier you

Annual Financial Statements
for the year ended 31 December 2016

Index

Ms. N Ntsinde
Chairperson

Ms. NH Mkhumane
Deputy Chairperson

Dr. G Goolab
Principal Officer

25 April 2017

Independent Auditor's Report

To the Members of Government Employees Medical Scheme

Report on the audit of the Financial Statements

Opinion

We have audited the financial statements of Government Employees Medical Scheme (the Scheme), set out on pages 6 to 62, 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 the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Government Employees Medical Scheme as at 31 December 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 Matter

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. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
Outstanding risk claims provision: The outstanding risk claims provision ("IBNR") comprise provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred but not yet reported at the reporting date. The determination of the IBNR requires the Scheme's Trustees to make assumptions in the valuation thereof, which is determined with reference to an estimation of the ultimate cost of settling all claims incurred but not yet reported at the Statement of Financial Position date. The Trustees make use of independent actuarial specialists for the estimation of the IBNR. The IBNR calculation is based on the following factors: • Previous experience in claims patterns; • Claims settlement patterns; • Changes in the nature and number of members according to gender and age; • Trends in claims frequency; • Changes in the claims processing cycle; and • Variations in the nature and average cost per claim. Certain of the above-mentioned factors require judgement and assumptions to be made by the Schemes Trustees and therefore we identified the valuation of the IBNR as a key audit matter. The IBNR is disclosed in note 11.	In evaluating the valuation of the IBNR, we performed various procedures, including the following: • Testing the Scheme's controls relating to the preparation of the IBNR calculation; • Testing the integrity of the information used in the calculation of the IBNR by performing substantive procedures; • With the assistance of our internal actuarial specialists we performed an independent calculation of the estimate of the provision using historical claims data and trends, and using this estimate as a basis of assessing the reasonableness of the trustee's estimate of the provision; • Performing a retrospective review of the IBNR raised in the 2015 financial year based on actual claims paid in 2016 to verify the assumptions applied to determine the IBNR are reasonable; • Performing tests of detail on the current year IBNR including testing actual claims experienced subsequent to year end and to as close as possible to audit completion date; and • Assessing the presentation and disclosure in respect of the IBNR and considered whether the disclosures reflected the risks inherent in the accounting for the IBNR. The assumptions applied in the IBNR are appropriate and we are satisfied that the movement of the IBNR in the Statement of Comprehensive Income is appropriate. The related disclosure of the IBNR and assumptions are appropriate.

Other Information

The Scheme's Trustees are responsible for the other information. The other information comprises the Statement of responsibility by the Board of Trustees, the Statement of corporate governance by the Board of Trustees and the Report of the Board of Trustees as required by the Medical Schemes Act, which was obtained prior to the date of this auditor's report. 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

Other than those instances of non-compliance disclosed in Note 30 to the audited annual financial statements, no other instances of non-compliance with the Medical Schemes Act of South Africa were identified.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Dinesh Munu
Partner
26 April 2017

Statement of Financial Position as at 31 December 2016

	Notes	2016 R '000	2015 R '000
ASSETS			
Non-current assets			
Equipment	3	11,942	7,846
Intangible assets	4	48,020	16,950
Financial assets at fair value through profit or loss	5	684,275	359,403
Total non-current assets		**744,237**	**384,199**
Current assets			
Financial assets at fair value through profit or loss	5	177,248	87,673
Trade and other receivables	6	305,114	318,107
Cash and cash equivalents		3,755,096	3,864,422
Scheme cash invested	7	3,177,474	3,405,171
Personal medical savings account trust monies invested	8	577,622	459,251
Total current assets		**4,237,458**	**4,270,202**
Total assets		**4,981,695**	**4,654,401**
FUNDS AND LIABILITIES			
Members' funds			
Accumulated funds		2,176,074	2,660,725
Current liabilities			
Personal medical savings account trust liability	9	656,318	493,715
Trade and other payables	10	1,188,560	498,824
Outstanding risk claims provision	11	960,000	1,000,800
Lease escalation reserve		743	337
Total current liabilities		2,805,621	1,993,676
Total funds and liabilities		4,981,695	4,654,401

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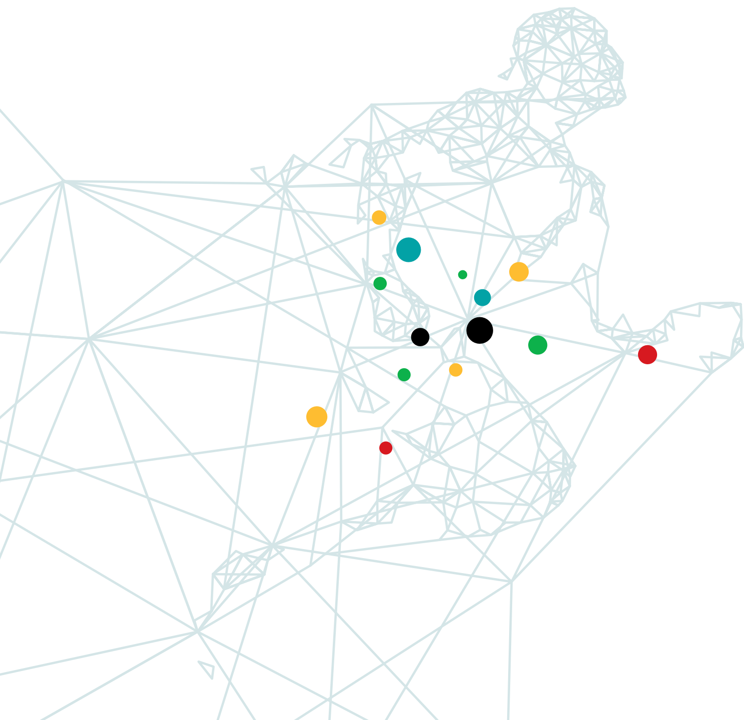
Statement of Comprehensive Income

	Notes	2016 R '000	2015 R '000
Risk contribution income	13	30,271,405	27,570,368
Relevant healthcare expenditure		(29,241,001)	(26,379,576)
Risk claims incurred	14	(28,543,347)	(25,740,758)
Accredited managed healthcare services	15	(697,654)	(638,818)
Gross healthcare result		**1,030,404**	**1,190,792**
Administration expenditure	16	(1,567,415)	(1,227,836)
Marketing services		(120,382)	(115,684)
Impairment losses on healthcare receivables	18	(65,767)	(52,382)
Net healthcare result		**(723,160)**	**(205,110)**
Investment income	19	261,773	224,112
Dividends income		6,713	317
Interest received on financial assets at fair value through profit or loss		47,803	4,709
Net realised gain on financial assets at fair value through profit or loss		5,224	220
Net unrealised gains/(losses) on financial assets at fair value through profit or loss		8,468	(3,865)
Interest received on Scheme cash invested		156,207	198,190
Personal medical savings account trust monies invested		37,358	24,541
Other income		17,478	11,055
Sundry income		17,478	5,219
Net interest adjustment of government grant		-	5,836
Other expenses		(40,742)	(24,743)
Investment management fees		(3,384)	(202)
Interest allocated to members' personal medical savings accounts trust monies		(37,358)	(24,541)
(Deficit)/surplus and total comprehensive (deficit)/ surplus for the year		(484,651)	5,314

Annual Financial Statements for the year ended 31 December 2016

Statement of Changes in Funds

	Accumulated funds R '000	Total members' funds R '000
Balance at 1 January 2015	**2,655,411**	**2,655,411**
Surplus for the year and total comprehensive surplus	5,314	5,314
Balance at 1 January 2016	**2,660,725**	**2,660,725**
Deficit for the year and total comprehensive deficit	(484,651)	(484,651)
Balance at 31 December 2016	**2,176,074**	**2,176,074**



Statement of Cash Flows

	Notes	2016 R '000	2015 R '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from members		31,016,560	28,030,211
Cash receipts from government		-	260,000
Cash paid to suppliers, members and employees		(30,954,884)	(27,937,346)
Cash generated from operations	22	61,676	352,865
Net cash flows from/(used in) operating activities		61,676	352,865
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment	3	(7,797)	(4,555)
Purchase of other intangible assets	4	(37,611)	(16,950)
Purchase of financial assets at fair value through profit or loss	5	(350,009)	(450,000)
Investment income	19	261,773	224,112
Interest received on Scheme cash invested		156,207	198,190
Income earned on financial assets at fair value through profit or loss		68,208	1,381
Personal medical savings account trust monies invested		37,358	24,541
Interest allocated to members' personal medical savings account trust monies		(37,358)	(24,541)
Net cash outflow from investing activities		(171,002)	(271,934)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(109,326)**	**80,931**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**3,864,422**	**3,783,491**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**3,755,096**	**3,864,422**
Scheme cash invested	7	3,177,474	3,405,171
Personal medical savings account trust monies invested	8	577,622	459,251

Notes to the Annual Financial Statements

1 Principal Accounting Policies

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

1.1 Statement of compliance

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

1.2 Basis of preparation

The financial statements are prepared on the going concern principle and using the historical cost basis, except as otherwise stated in the accounting policies below. Information contained in the financial statements is presented in South African Rand, which is the Scheme's functional currency. All financial information presented in Rand has been rounded to the nearest thousands, except where otherwise indicated.

1.3 Equipment

Equipment is measured at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged on the straight line basis over the estimated useful lives of assets after taking into consideration an asset's residual value.

The following useful lives are used in the calculation of depreciation:

Item	**Average useful life**
Furniture and fittings	5 years
Motor vehicles	5 years
Office equipment	5 years
Computer equipment	3 years
Leasehold improvements	Over the unexpired period of the applicable lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

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

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

Annual Financial Statements for the year ended 31 December 2016

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

An asset is derecognised on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is the difference between the proceeds received and the carrying amount at the date of disposal and the gain or loss is recognised in profit or loss.

1.4 Financial instruments

Financial assets and financial liabilities are recognised on the Scheme's Statement of Financial Position when the Scheme becomes a party to the contractual provisions of the instrument. The Scheme derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which all the risks and rewards of ownership of the financial asset are transferred substantially, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Scheme is recognised as a separate asset or liability. 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 classifies its financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables. The Scheme classifies its financial liabilities at amortised cost. The classification depends on the purpose for which the financial instruments are acquired. Classification is determined at initial recognition and is re-evaluated at the end of each reporting period. The Scheme derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Measurement

Financial instruments are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. Transaction costs on financial assets at fair value through profit or loss are recognised in profit or loss. Subsequent to initial recognition, these instruments are measured as set out below:

Financial assets at fair value through profit or loss

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

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

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

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

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

Loans and receivables

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, taking into account accumulated impairment losses.

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

Cash and cash equivalents

Cash and cash equivalents comprise fixed deposits held for a period of up to 12 months, deposits held on call with banks, cash on hand and other short term liquid investments. These fixed deposits are readily convertible, within a 3 month period, to a known amount of cash and are subject to insignificant risk of change in value. Cash and cash equivalents are classified as loans and receivables.

Financial liabilities measured at amortised cost

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

Offset

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

1.5 Personal Medical Savings Accounts: Trust monies managed by the Scheme on behalf of its members

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

The deposit component of the insurance contracts has been unbundled, since the Scheme can measure the deposit component separately. The deposit component is recognised in accordance with IAS 39 and is initially measured at fair value and subsequently at amortised cost using the effective interest method. The insurance component is recognised in accordance with IFRS 4, Insurance Contracts.

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

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

The personal medical savings account trust monies are invested on behalf of members in deposits held in a call account. These monies are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Interest is allocated to members with positive balances in their trust accounts monthly.

1.6 Insurance contracts

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

1.7 Provisions

Provisions are recognised when the Scheme has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of economic benefits will be required to settle the obligation and for which a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

The expected future cash flows are discounted at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

1.8 Outstanding risk claims provision

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

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

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

1.9 Risk contribution income

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

1.10 Risk claims incurred

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

Net risk claims incurred comprised the following:

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

Annual Financial Statements for the year ended 31 December 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

1.11 Leases

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1.12 Liabilities and related assets under liability adequacy test

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

1.13 Accredited managed healthcare services

These expenses represent expenditure and amounts paid or payable to accredited managed care organisations contracted by the Scheme for management of the utilisation costs and quality of healthcare services supplied to the Scheme and its members. These fees are expensed as incurred.

The services provided by these organisations include hospital pre-authorisation, disease management programmes, optical and dental managed care services, pharmaceutical benefit and network management.

1.14 Investment Income

The Scheme's investment income includes:

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

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

1.15 Impairment losses

(i) Financial assets

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

Financial assets measured at amortised cost: Loans and receivables

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

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

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

(ii) Non-financial assets

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

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

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

Annual Financial Statements for the year ended 31 December 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

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

1.16 Allocation of revenue and expenditure to benefit options

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

The following items are directly allocated to benefit options:
- Risk contributions;
- Risk claims incurred; and
- Savings interest.

The remaining items are apportioned based on the number of members on each option:
- Other administration expenditure;
- Other income;
- Other expenditure;
- Accredited managed healthcare services; and
- Administration fees.

1.17 Unclaimed benefits

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

1.18 Road Accident Fund (RAF) Recoveries

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

1.19 Relevant healthcare expenditure

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

1.20 Employee benefits

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

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

1.21 Intangible assets

An intangible asset is recognised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Intangible assets are measured at cost less any accumulated amortisation and any impairment losses subsequent to its initial recognition at cost.

Development expenditure of an internally developed intangible asset is capitalised only if the expenditure can be measured reliably, the product is technically and commercially feasible, the future economic benefits are probable, the Scheme has the ability to use the asset and the Scheme has the intention as well as sufficient resources to complete development and to use the asset. Otherwise, it is recognised in profit or loss as incurred. Expenditure on research activities is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

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

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

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

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

Item	Useful life
Software	3 Years

1.22 Government grants

A government grant is not recognised until there is reasonable assurance that the Scheme will comply with the conditions attached to it and that the grant will be received.

A government grant is initially recognised as deferred income and is recognised in profit or loss on a systematic basis over the periods in which the Scheme recognises, as expenses, the related cost for which the grant is intended to compensate.

A government grant that is receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Scheme with no future related costs is recognised in the Statement of Comprehensive Income in the period in which it becomes receivable.

2 New Standards and Interpretations

Standards and interpretations applicable to the scheme not yet effective

The following new standards and amendments to IFRSs are not yet effective for the current financial year. The Scheme will comply with the new standards and interpretations from the various effective dates.

IFRS 9 Financial Instruments

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

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Scheme will adopt the standard in the first annual period beginning on or after the mandatory effective date. The impact of the adoption of IFRS 9 has not yet been estimated.

IFRS 15 Revenue from Contracts from Customers

New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five step methodology that is required to be applied to all contracts with customers.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 and the impact of the adoption of IFRS 15 has not yet been estimated. The Scheme will adopt the standard in the first annual period beginning on or after the mandatory effective date.

IFRS 16 Leases

New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 also contains expanded disclosure requirements for lessees.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019 and the impact of the adoption of IFRS 16 has not yet been estimated. The Scheme will adopt the standard in the first annual period beginning on or after the mandatory effective date.

Amendments to standards adopted in the current year

IAS 1 Presentation of Financial Statements

The standard is amended to encourage an entity to apply professional judgement in determining what information to disclose in their financial statements. Furthermore, the amendments also clarify that an entity should use professional judgement in determining where and in what order information is presented in the financial disclosures.

IAS 1 amendment is effective for annual reporting periods beginning on or after 1 January 2016, with early adoption permitted. This amendment has no impact on these financial statements.

IAS 16 Property, Plant and Equipment

The standard was amended to establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.

IAS 16 amendment is effective for annual reporting periods beginning on or after 1 January 2016. This amendment has no impact on these financial statements.

IAS 38 Intangible Assets

The standard is amended to establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.

IAS 38 amendment is effective for annual reporting periods beginning on or after 1 January 2016. This amendment has no impact on these financial statements.

3 Equipment

	2016 R '000			2015 R '000		
	Cost	**Accumulated Depreciation**	**Carrying value**	**Cost**	**Accumulated Depreciation**	**Carrying value**
Computer equipment	9,130	(5,372)	3,758	6,757	(3,474)	3,283
Furniture and fittings	3,183	(1,637)	1,546	2,469	(1,296)	1,173
Leasehold improvements	3,278	(2,967)	311	3,222	(2,588)	634
Motor vehicles	7,113	(1,731)	5,382	2,934	(870)	2,064
Office equipment	2,410	(1,465)	945	1,935	(1,243)	692
	25,114	(13,172)	11,942	17,317	(9,471)	7,846

Reconciliation of equipment 2016	**Opening Balance**	**Additions**	**Disposals**	**Depreciation**	**Closing Balance**
	R '000				
Computer equipment and software	3,283	2,373	-	(1,898)	3,758
Furniture and fittings	1,173	714	-	(341)	1,546
Leasehold improvements	634	56	-	(379)	311
Motor vehicles	2,064	4,179	-	(861)	5,382
Office equipment	692	475	-	(222)	945
	7,846	7,797	-	(3,701)	11,942

Reconciliation of equipment 2015	**Opening Balance**	**Additions**	**Disposals**	**Depreciation**	**Closing Balance**
	R '000				
Computer equipment and software	2,059	2,603	(2)	(1,377)	3,283
Furniture and fittings	278	1,113	-	(218)	1,173
Leasehold improvements	575	579	-	(520)	634
Motor vehicles	2,527	-	-	(463)	2,064
Office equipment	655	260	-	(223)	692
	6,094	4,555	(2)	(2,801)	7,846

4 Intangible Assets

	2016 R '000			2015 R '000		
	Cost	Accumulated Amortisation	Carrying value	Cost	Accumulated Amortisation	Carrying value
Software	43,122	(7,348)	35,774	807	(807)	-
Software (work in progress)	12,246	-	12,246	16,950	-	16,950
	55,368	(7,348)	48,020	17,757	(807)	16,950

Reconciliation of intangible assets 2016	Opening Balance	Additions	Disposals	Transfer	Amortisation	Closing Balance
						R '000
Software	-	37,611	-	4,704	(6,541)	35,774
Software (work in progress)	16,950	-	-	(4,704)	-	12,246
	16,950	37,611	-	-	(6,541)	48,020

Reconciliation of intangible assets 2015	Opening Balance	Additions	Disposals	Transfer	Amortisation	Closing Balance
						R '000
Software	269	-	-	-	(269)	-
Software (work in progress)	-	16,950	-	-	-	16,950
	269	16,950	-	-	(269)	16,950

Annual Financial Statements for the year ended 31 December 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

5 Financial Assets at Fair Value Through Profit or Loss

	2016 R '000	2015 R '000
Fair value of investments at beginning of year	451,355	-
Additions to investments	350,009	450,000
Realised gains and interest	59,740	5,246
Unrealised gains/(losses)	8,468	(3,865)
Investment transaction fees*	(79)	(26)
Fair value of investments at year end	**869,493**	**451,355**
Less Accrued interest **	(7,970)	(4,279)
Closing balance of investments	**861,523**	**447,076**
Non-current assets	684,275	359,403
Current assets	177,248	87,673
	861,523	**447,076**

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

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

Financial assets at fair value through profit or loss consist of money market instruments, bonds and equities. Financial assets at fair value through profit or loss are categorised as Levels 1 and 2. Refer note 27.

6 Trade and other Receivables

	2016 R '000	2015 R '000
Insurance receivables		
Contributions outstanding	187,892	205,335
Receivables from members and providers	110,722	66,460
Personal medical savings account advances (note 9)	1,331	1,001
Receivables balance before impairment	299,945	272,796
Less: Balance of allowance for impairment at 31 December	**(53,967)**	**(24,712)**
Balance as at 1 January	24,712	24,368
Amount recognised in the Statement of Comprehensive Income	65,767	52,382
Amounts utilised during the period	(36,512)	(52,038)
Total insurance receivables	**245,978**	**248,084**
Financial receivables		
Accrued interest	33,496	38,153
Sundry accounts receivable	25,640	31,870
Total financial receivables	**59,136**	**70,023**
Total trade and other receivables	**305,114**	**318,107**

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

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

For an analysis of the ageing of receivables refer to note 27.

For an analysis of the average interest rates and maturity refer to note 27.

Annual Financial Statements for the year ended 31 December 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

7 Cash and Cash Equivalents: Scheme Cash Invested

	2016 R '000	2015 R '000
Call accounts	2,547,710	2,345,231
Current accounts	69,764	254,940
Fixed deposit	560,000	805,000
Total cash and cash equivalents: Scheme cash invested	**3,177,474**	**3,405,171**

The average effective interest rate on the current accounts, call accounts and fixed deposits was 6.55% (2015: 5.58%).

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

For an analysis of the average interest rates and maturity refer to note 27.

8 Personal Medical Savings Account Trust Monies Invested

	2016	2015
Call deposit	577,622	459,251

The carrying amount of the trust funds investment approximates its fair value due to the short term maturity of this asset.

These funds are held in a call account with Investec Bank and the effective interest rate on the call deposit was 6.76% (2015: 6.10%).

9 Personal Medical Savings Account Trust Monies

	2016 R '000	2015 R '000
Gross balance of personal medical savings account trust liability at beginning of the year	493,715	380,901
Less: Advances on personal medical savings account trust liability at beginning of year	(1,001)	(845)
Balance of personal medical savings account trust liability at the beginning of the year	492,714	380,056
Savings account contributions received (note 13)	772,304	568,853
Transfers from other schemes in terms of Regulation 10(4)	201	159
Interest income earned on trust monies invested	37,358	24,541
Refunds on death or resignation in terms of Regulation 10(5)	(58,564)	(54,413)
Claw backs from members	4,132	5,766
Claims paid on behalf of members (note 14)	(593,158)	(432,248)
Personal medical savings account advances (note 6)	1,331	1,001
Balances due to members on personal medical savings accounts held in trust at the end of the year	**656,318**	**493,715**

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

The personal medical savings account liability contains a demand feature that any credit balance on the savings account will be transferred to the member in terms of the Medical Schemes Act and the Scheme Rules when a member registers on another benefit option or medical scheme which does not have a savings account or when a member resigns from the Scheme.

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

Interest on the members' personal medical savings accounts is calculated and allocated on a monthly basis using the effective interest method.

It is estimated that claims to be paid out from members' personal medical savings accounts in respect of claims incurred in 2016 but not recorded amount to R4.4 million (2015: R7.1 million).

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

The effect of discounting is not material.

Refer to note 8 with regards to investment of the personal medical savings accounts trust monies.

Annual Financial Statements for the year ended 31 December 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

10 Trade and Other Payables

	2016 R '000	2015 R '000
Insurance liabilities		
Claims reported not yet paid		
Balance at the beginning of the year	199,678	-
Claims incurred	28,343,669	25,740,758
Claims settled	(27,697,832)	(25,541,080)
Total liabilities arising from insurance contracts	**845,515**	**199,678**
Financial liabilities		
Administration fees payable	88,530	71,914
Consulting fees payable	2,327	1,524
Accredited managed healthcare fees due	58,444	56,291
Marketing services	12,802	9,775
Refunds due to members	3,077	2,709
Sundry payables and accrued expenses	47,654	53,251
Trade payables	130,017	103,376
Unallocated deposits	194	306
Total arising from financial liabilities	**343,045**	**299,146**
Total trade and other payables	**1,188,560**	**498,824**

The carrying amounts of trade payables approximate their fair values due to the short term maturities of these liabilities. Fair value is equal to the face value of the amount invoiced by the creditor. The average payment terms for trade payables are 35 days (2015: 25 days).

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

Annual Financial Statements for the year ended 31 December 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

11 Outstanding Risk Claims Provision

	2016 R '000	2015 R '000
Outstanding risk claims provision		
Not covered by risk transfer arrangements	960,000	1,000,800
Analysis of movements in outstanding risk claims		
Opening balance	1,000,800	947,110
Payments in respect of prior year	(1,026,788)	(962,173)
Prior year under provision	(25,988)	(15,063)
Current year increase in provision	985,988	1,015,863
Balance at the end of the year	960,000	1,000,800
Analysis of outstanding risk claims provision 2016	**Estimated gross claims**	**Balance at the end of the year**
Not covered by risk transfer arrangements	960,000	960,000
Analysis of outstanding risk claims provision 2015		
Not covered by risk transfer arrangements	1,000,800	1,000,800

This provision, known as the outstanding risk claims provision, is determined by way of statistically sound analyses of a number of factors, which include previous experience in claim patterns, claim settlement patterns, changes in the number of members according to gender and age, trends in claim frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim. The provision is net of estimated recoveries from members for co-payments. The actuaries followed a standard operating procedure governing the calculation of the provision as agreed with the Scheme to ensure consistency in application and interpretation of results. The Scheme does not discount its outstanding risk claims provision since the effect of the time value of money is not considered material. The adequacy of the provision is assessed on a monthly basis, through reviews of past experience and consideration of changes in fundamentals such as claims processing and composition. Furthermore, the Scheme has standardised the provision calculation methodology and any deviation to this is adequately supported. An actuarial peer review of the provision calculation is in place and the Scheme considers the outstanding risk claims provision of R1.0 billion (2015: R1.0 billion) to be adequate. The estimation of the provision gives an indication of whether the Scheme would have adequate assets to cover the potential liability from the Scheme's insurance contracts, as required by accounting policy. The Scheme has sufficient assets to cover any potential liability from insurance contracts as the cash and cash equivalents at year end cover the outstanding risk claims provision three times.

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

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

The Bornheutter Ferguson method was the preferred actuarial method for estimating the provision for the year under review and the prior year. This method of calculating the outstanding risk claims provision is in line with the standard operating procedure (SOP) for the Scheme. Refer to note 23 for actuarial assumptions made.

12 Analysis of Carrying Amounts of Financial Assets and Liabilities Per Catergory

	R '000	R '000	R '000	R '000
2016	**Financial assets at fair value through profit or loss**	**Loans and receivables**	**Financial liabilities at amortised cost**	**Total**
Financial assets at fair value through profit or loss	861,523	-	-	861,523
Trade and other receivables	-	305,114	-	305,114
Cash and cash equivalents: Scheme cash invested	-	3,177,474	-	3,177,474
Personal medical savings account trust monies invested	-	577,622	-	577,622
Personal medical savings account trust liability	-	-	(656,318)	(656,318)
Trade and other payables	-	-	(1,188,560)	(1,188,560)
	861,523	4,060,210	(1,844,878)	3,076,854
2015	**Financial assets at fair value through profit or loss**	**Loans and receivables**	**Financial liabilities at amortised cost**	**Total**
Financial assets at fair value through profit or loss	447,076	-	-	447,076
Trade and other receivables	-	318,107	-	318,107
Cash and cash equivalents: Scheme cash invested	-	3,405,171	-	3,405,171
Personal medical savings account trust monies invested	-	459,251	-	459,251
Personal medical savings account trust liability	-	-	(493,715)	(493,715)
Trade and other payables	-	-	(498,824)	(498,824)
	447,076	4,182,529	(992,539)	3,637,066

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

13 Risk Contribution Income

	2016 R '000	2015 R '000
Gross contributions per registered rules	31,043,709	28,139,221
Less: Savings contributions received *	(772,304)	(568,853)
Risk contribution income per statement of comprehensive income	30,271,405	27,570,368

* The savings 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 8 for more detail on how these monies were invested and to note 9 on how the monies were utilised.

14 Risk Claims Incurred

	2016	2015
Claims incurred		
Current year claims per registered rules (including under provision of prior year outstanding risk claims provision)	28,139,116	25,176,790
Outstanding risk claims provision as at 31 December	960,000	1,000,800
Claims reconciling item	38,896	-
Less:	(594,665)	(436,832)
Claims paid from personal medical savings accounts*	(593,158)	(432,248)
Discount received on claims	(1,507)	(4,584)
Total net claims incurred	28,543,347	25,740,758

The claims ratio is calculated as claims incurred expressed as a percentage of risk contributions received. The Scheme recorded a claims ratio for the current financial year of 94% (2015: 93%).

* Claims are paid on behalf of the members from their personal medical savings accounts in terms of Regulation 10(3) and the Scheme's registered benefits. Refer to note 9 for a breakdown of the movement in these balances.

15 Accredited Managed Healthcare Services

	2016 R '000	2015 R '000
Chronic medicine management services	145,299	134,508
Dental managed care	59,349	48,803
HIV management	43,259	40,923
Managed care services	335,808	312,915
Pharmaceutical benefit management	113,939	101,669
	697,654	638,818

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

Refer to note 25 for more information on accredited managed healthcare agreements.

16 Administration Expenditure

	2016	2015
Actuarial fees	6,212	5,669
Administration fees	1,061,897	813,343
Advertising and marketing	53,607	55,908
Auditors' remuneration - statutory fees	3,207	2,208
Benefit management services	124,714	106,203
Board and Committee fees	6,926	6,964
Conferences and workshops	2,609	2,882
Consulting fees	90,611	83,157
Depreciation and amortisation	10,242	3,070
Employee costs	125,086	83,830
Legal expenses	7,703	3,906
Loss on disposal of assets	-	2
Motor vehicle expenses	552	227
Office supplies	8,352	7,781
Practice Code Numbering System (PCNS) fees and CMS levies	22,837	22,243
Principal Officer's fees	4,223	4,223
Rental paid	14,362	10,657
Telephone and fax	9,481	5,116
Travel and accommodation	12,030	8,018
Trustees' and Committee members' training (note 17)	233	65
Trustees' and Committee members' travel and accommodation (note 17)	1,108	1,223
Water and electricity	1,423	1,141
	1,567,415	1,227,836

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

17 Trustees' and Independent Committee Members' Remuneration

Board of Trustees' remuneration

		Attendance Fees		Travel and Accomodation		Reimbursments and Allowances		Training		Total	
		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 2016	R '000 2015
Mr K Ndaba	31/07/2016	-	-	-	7	-	-	-	-	-	7
Ms NH Mkhumane: Deputy Chairperson	24/07/2020	518	353	-	18	1	1	55	1	574	373
Mr BE De Vries	29/07/2019	397	414	278	304	17	18	5	13	697	749
Mr CJ Booyens	29/07/2019	623	640	68	40	22	22	2	-	715	702
Mr ZC Rikhotso	31/07/2016	214	500	59	52	1	3	11	-	285	555
Ms N Ntsinde: Chairperson	29/07/2019	840	675	48	96	7	10	75	1	970	782
Mr D De Villiers	31/07/2019	640	675	48	41	1	1	14	6	703	723
Mr NL Theledi	26/09/2019	431	327	47	60	3	3	2	6	483	396
Dr IJ Van Zyl	29/07/2020	475	431	55	64	14	15	3	6	547	516
Dr JA Breed	29/07/2020	466	414	95	79	15	25	3	12	579	530
Dr CM Mini	29/07/2020	814	771	23	71	17	9	54	14	908	865
Mr JS Roux	29/07/2020	605	623	339	317	10	16	3	6	957	962
Dr C Moloko	28/10/2022	124	-	-	-	-	-	-	-	124	-
		6,147	5,823	1,060	1,149	108	123	227	65	7,542	7,160

The Trustee remuneration should be seen in relation to the attendance of meetings as reported in the Board of Trustees report as well as the term of office applicable to each trustee. It is worth noting that not all Trustees reside in Gauteng and therefore travel and accommodation costs are incurred. The total of the Trustees Fees disclosed in this note is included in the Board and Committee fee line items as disclosed in Administration Expenditure (refer note 16).

Mr K Ndaba is a DPSA representative and does not get remunerated for his duties as a Trustee. The Scheme is, however, responsible for his travel costs (flights, car hire and accommodation), for attending the AGM of the Scheme and any other offsite meetings, should he be required to attend.

17 Trustees' and Independent Committee Members' Remuneration (continued)

Independent Committee members' remuneration

		Attendance Fees		Travel and Accomodation		Reimbursments and Allowances		Training		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
Ms LR Zondi	31/07/2017	39	78	-	6	-	-	-	-	39	84
Mr M Mondi	31/03/2015	-	39	-	-	-	-	-	-	-	39
Ms T Marah	31/03/2015	-	26	-	-	-	-	-	-	-	26
Ms M Tonjeni	31/03/2015	-	26	-	-	-	-	-	-	-	26
Ms M Sukathi	31/03/2018	333	350	-	15	1	-	6	-	340	365
Dr F Msiza	31/03/2016	87	131	5	11	-	-	-	-	92	142
Mr N Mhlongo	31/03/2016	52	131	-	5	-	1	-	-	52	137
Dr P Ford	31/03/2016	-	52	9	22	-	-	-	-	9	74
Ms M David	31/03/2016	26	52	-	5	-	1	-	-	26	58
Ms TA Ndoni	30/06/2016	-	26	-	-	-	-	-	-	-	26
Ms P Ndumo-Vilakazi	30/06/2016	-	52	-	-	-	-	-	-	-	52
Mr L Jiya	30/06/2016	26	40	-	-	-	-	-	-	26	40
Ms RHS Eksteen	30/10/2018	104	13	34	10	1	-	-	-	139	23
		667	1,016	48	74	2	2	6	-	723	1,092

Remuneration paid to independent committee members during 2016 was based on a maximum fee per hour spent at the meeting, capped at a maximum rate per day.

Annual Financial Statements for the year ended 31 December 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

18 Impairment Losses on Healthcare Receivables

	2016 R '000	2015 R '000
Movement in the allowance account for impairment losses	29,255	344
Impairment losses recognised directly in income	36,512	52,038
	65,767	52,382

19 Investment Income

	2016 R '000	2015 R '000
Dividends income	6,713	317
Interest received on financial assets at fair value through profit or loss	47,803	4,709
Net realised gains on financial assets at fair value through profit or loss	5,224	220
Net unrealised gains/(losses) on financial assets at fair value through profit or loss	8,468	(3,865)
Interest received on Scheme cash invested	156,207	198,190
Personal medical savings account trust monies invested	37,358	24,541
	261,773	224,112

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

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

20 Commitments

Operating leases commitment

	2016 R '000	2015 R '000
The future minimum lease payments under a non-cancellable operating lease:		
- Less than 1 year	6,256	4,407
- More than 1 year and less than 5 years	18,787	16,611
	25,043	21,018
Lease amounts recognised in profit or loss during the year		
Rental paid	14,362	10,657

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

Annual Financial Statements for the year ended 31 December 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

21 Net Healthcare Result Per Benefit Option

	SAPPHIRE		BERYL		RUBY	RUBY	EMERALD		ONYX		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	2016 R '000	2015 R '000
Risk contribution income	860,678	741,564	726,371	556,422	2,316,914	1,706,418	24,111,513	22,305,859	2,255,929	2,260,105	30,271,405	27,570,368
Relevant healthcare expenditure	**(277,132)**	**(233,365)**	**(610,699)**	**(454,472)**	**(1,911,733)**	**(1,355,471)**	**(23,485,498)**	**(21,448,464)**	**(2,955,939)**	**(2,887,804)**	**(29,241,001)**	**(26,379,576)**
Risk claims incurred	(235,337)	(197,009)	(583,565)	(433,097)	(1,838,620)	(1,300,469)	(22,971,217)	(20,964,607)	(2,914,608)	(2,845,576)	(28,543,347)	(25,740,758)
Accredited managed healthcare services	(41,795)	(36,356)	(27,134)	(21,375)	(73,113)	(55,002)	(514,281)	(483,857)	(41,331)	(42,228)	(697,654)	(638,818)
Gross healthcare result	**583,546**	**508,199**	**115,672**	**101,950**	**405,181**	**350,947**	**626,015**	**857,395**	**(700,010)**	**(627,699)**	**1,030,404**	**1,190,792**
Administration expenditure	(94,118)	(70,062)	(61,216)	(41,399)	(164,803)	(105,890)	(1,154,708)	(929,429)	(92,570)	(81,056)	(1,567,415)	(1,227,836)
Marketing services	(7,214)	(6,592)	(4,686)	(3,885)	(12,625)	(9,968)	(88,729)	(87,593)	(7,128)	(7,646)	(120,382)	(115,684)
	482,214	**431,545**	**49,770**	**56,666**	**227,753**	**235,089**	**(617,422)**	**(159,627)**	**(799,708)**	**(716,401)**	**(657,393)**	**(152,728)**
Impairment losses on healthcare receivables	(2,624)	(2,890)	8,237	(1,887)	(2,614)	(5,976)	(63,917)	(40,970)	(4,849)	(659)	(65,767)	(52,382)
Net healthcare result	**479,590**	**428,655**	**58,007**	**54,778**	**225,139**	**229,113**	**(681,339)**	**(200,597)**	**(804,557)**	**(717,060)**	**(723,160)**	**(205,110)**
Investment income	6,362	5,389	5,339	4,016	17,051	12,360	178,837	161,453	16,826	16,353	224,415	199,571
Personal medical savings account trust monies invested	-	-	-	-	37,358	24,541	-	-	-	-	37,358	24,541
Interest allocated to members' personal medical savings accounts	-	-	-	-	(37,358)	(24,541)	-	-	-	-	(37,358)	(24,541)
Other income	1,073	300	705	186	1,888	450	12,803	3,953	1,009	6,166	17,478	11,055
Investment management fees	(97)	(5)	(82)	(4)	(261)	(13)	(2,693)	(163)	(251)	(17)	(3,384)	(202)
Total comprehensive surplus/ (deficit) for the year	**486,928**	**434,339**	**63,969**	**58,977**	**243,817**	**241,910**	**(492,392)**	**(35,354)**	**(786,973)**	**(694,558)**	**(484,651)**	**5,314**
Number of members	**43,197**	**40,450**	**28,509**	**25,670**	**76,118**	**60,579**	**506,907**	**504,521**	**39,531**	**43,453**	**694,262**	**674,673**

21 Net Healthcare Result Per Benefit Option (continued)

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

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

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

Ruby offers members a savings account for day-to-day medical expenses as well as a hospital benefit. Savings contributions portion is comprised of 25% of contribution income of the Ruby option.

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

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

National Treasury awarded an amount of R600 million over a maximum period of four years, commencing in 2012, to eliminate the significant financial impact experienced with the transfer of the pre-1992 state pensioners to the Scheme during April 2012 and for future streamlining of medical provisioning by National Treasury, particularly in the public sector.

The government grant is recognised as income to the extent that the expenditure, for which the grant was intended, is incurred during the year. During the 2016 financial period there was no government grant recognised as income (2015: R0).

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

22 Cash Generated from Operations

	2016 R '000	2015 R '000
(Deficit)/Surplus for the year	(484,651)	5,314
Adjustments for:		
Depreciation and amortisation	10,242	3,070
Investment transaction fees	79	26
Loss on disposal of assets	-	2
Government grant:		
Cash received from government	-	260,000
Investment income:		
Scheme cash invested	(156,207)	(198,190)
Income earned on financial assets at fair value through profit or loss	(68,208)	(1,381)
Interest earned on trust monies invested	37,358	24,541
Personal medical savings account trust monies invested	(37,358)	(24,541)
Net interest adjustment of government grant	-	(5,836)
Impairment of healthcare receivables	65,767	52,382
Movements in outstanding risk claims provision	(40,800)	53,690
Changes in working capital:		
Trade and other receivables	(117,291)	(194,139)
Trade and other payables	689,736	264,851
Personal medical savings account trust monies	162,603	112,814
Lease escalation reserve	406	262
	61,676	352,865

23 Critical Accounting Judgements and Areas of Key Sources of Estimation Uncertainty

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

Impairment of trade and other receivables

Objective evidence of the impairment of trade and other receivables includes the Scheme's past experience of collecting payments, trade and other receivables outstanding for 120 days or more and receivables due from deceased members. Refer to note 1.15 for more detail with regards to the accounting policy for impairment losses.

Outstanding risk claims provision

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

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

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

Sources of unreported claim payments include:

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

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

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

The following table illustrates the quantum of uncertainty inherent to the outstanding risk claims provision estimates. As opposed to claims for 2016 that have already been paid, the claims for 2016 estimated to be paid (or reopened) in future payment months are still subject to uncertainty. This quantity forms a useful basis for a sensitivity analysis. The table below illustrates the effect of a 3% increase and decrease in this amount.

23 Critical Accounting Judgements and Areas of Key Sources of Estimation Uncertainty (continued)

	R '000	R '000	R '000	R '000
	Claims for 2016 services paid from Jan 2017 to March 2017	2016 claims estimated at the time to be paid after March 2017	2016 Outstanding risk claims provision	% change in outstanding risk claims provision
Base Scenario	898,151	61,849	960,000	0.00%
3% increase	898,151	63,704	961,855	0.19%
3% decrease	898,151	59,993	958,145	-0.19%

The same analysis appears below for 31 December 2015 financial year outstanding risk claims provision, where claims paid after March 2016 for 2015 forms the basis for the sensitivity analysis. Note that the base scenario figures below are actuals, not estimates.

	R '000	R '000	R '000	R '000
	Claims for 2015 services paid from Jan 2016 to March 2016	2016 claims estimated at the time to be paid after March 2016	2015 Outstanding risk claims provision	% change in outstanding risk claims provision
Base Scenario	991,026	9,774	1,000,800	0.00%
3% increase	991,026	10,067	1,001,093	0.03%
3% decrease	991,026	9,481	1,000,507	-0.03%

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

The Board of Trustees believe that the liability for claims reported in the Statement of Financial Position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

At 31 December 2016, if the estimated component of the outstanding risk claims provision had increased by 3% with all other variables held constant, the deficit (2015: surplus) for the year would have been R1.86 million higher (2015: R0.29 million lower).

At 31 December 2016, if the estimated component of the outstanding risk claims provision had decreased by 3% with all other variables held constant, the deficit (2015: surplus) for the year would have been R1.86 million lower (2015: R0.29 million higher).

Additional comments are provided in note 11.

24 Professional Indemnity and Fidelity Insurance

In accordance with the Scheme rules, the Scheme has Professional Indemnity and Fidelity insurance to cover the events of fidelity, trustees and officers' errors and omissions and medical scheme reimbursements. On 31 December 2016 the effective cover was R1 billion (2015: R1 billion). The Scheme's insurance contracts are reviewed for adequacy and reinstated annually.

25 Related And Other Significant Parties

Related Parties with significant influence over the Scheme

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

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

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

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

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

Business Collaborate (Pty) Ltd provides correspondence services to the Scheme and therefore has significant influence over the Scheme, but does not control it.

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

Key management personnel and their close family members

Key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board of Trustees, the Principal Officer and members of the Executive Committee. This disclosure deals with full time personnel that are compensated on a salary basis (Principal Officer and Executive Committee) and part time personnel that are compensated on a fee basis (Board of Trustees). Close family members include family members of the Board of Trustees, Principal Officer and members of the Executive Committee.

25 Related And Other Significant Parties (continued)

Transactions with related parties

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

Key management personnel
Compensation (includes remuneration and other costs)
Key management compensation consists of short-term employee benefits as contemplated in IAS 24.

	2016 R '000	2015 R '000
Short term benefits	19,167	17,309
Post employment benefit	1,107	997
Bonus	-	1,066
	20,274	19,372
Principal Officer	4,223	4,223
Executive: Finance	2,812	2,799
Executive: Contracts and Operations	2,170	2,035
Executive: Communications and Member Affairs	1,988	1,979
Executive: Governance and Compliance	1,988	1,979
Executive: Healthcare Management	1,977	1,463
Chief Information Officer	1,697	1,690
Executive: Corporate Services	1,782	1,575
Chief Audit Executive	1,637	1,629
Gross contributions received (*)		
Board of Trustees	448	504
Principal Officer	30	27
Executive Committee	573	495
Claims incurred (*)		
Board of Trustees	672	735
Principal Officer	11	5
Executive Committee	350	203

(*) Gross contributions and claims incurred include contributions and claims incurred by members and their dependants. There were no outstanding balances between the Scheme and its key management personnel or their dependants at year end.

Refer to note 17 for Trustee remuneration disclosures.

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

25 Related And Other Significant Parties (continued)

	2016 R '000	2015 R '000
Parties with significant influence over the Scheme, but not control		
Statement of Comprehensive Income		
Administration fees	1,061,897	813,343
Accredited managed healthcare fees	697,654	638,818
Actuarial fees	6,212	5,669
Trade and other payables		
Administration fees due	88,530	71,914
Accredited managed healthcare fees due	58,444	56,291

Terms and conditions of the administration agreement

The administration agreements are aligned to the rules of the Scheme and in accordance with Trustee requirements. These contracts are renewable annually. The Scheme has the right to terminate the agreements on 90 days' notice. Administration fees are calculated on an arm's length basis on the number of members in good standing for the month. The outstanding balance bears no interest and is settled within 7 days.

Terms and conditions of the managed care agreements

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

The services covered by these agreements include:

Service	Provider 2016	Provider 2015
• Chronic medicine management services	• Universal Care (Pty) Ltd	• Universal Care (Pty) Ltd
• Dental managed care	• Denis (Pty) Ltd	• Prime Cure Health (Pty) Ltd
• HIV disease management services	• Metropolitan Health Risk Management (Pty) Ltd • Thebe Health Risk Management (Pty) Ltd	• Prime Cure Health (Pty) Ltd
• Managed health care services	• Medscheme Holdings (Pty) Ltd	• Medscheme Holdings (Pty) Ltd
• Maternity programme services	• Healthi Choices (Pty) Ltd	• Healthi Choices (Pty) Ltd
• Emergency medical dispatch services	• Europ Assist	• Europ Assist
• Pharmaceutical benefit management services	• Medikredit (Pty) Ltd	• MyCare (Pty) Ltd
• Telemarketing services	• Teledirect (Pty) Ltd	• Teledirect (Pty) Ltd
• Health and wellness services	• Pinnacle Health Solutions (Pty) Ltd	• Pinnacle Health Solutions (Pty) Ltd

Annual Financial Statements for the year ended 31 December 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

25 Related And Other Significant Parties (continued)

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

Terms and conditions of the Government Grant

National Treasury awarded an amount of R600 million over a maximum period of four years commencing in 2012 to eliminate the significant financial impact experienced with the transfer of the pre-1992 state pensioners from Medihelp to the Scheme during April 2012 and for future streamlining of medical provisioning by National Treasury, particularly in the public sector.

The government grant is recognised to the extent that the expenditure, for which the grant was intended, is incurred during the year. There was no government grant recognised in the year under review as the last instalment was received in 2015.

26 Insurance Risk Management

Risk management objectives and policies for mitigating insurance risk

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

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

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

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

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

26 Insurance Risk Management (continued)

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

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

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

Insurance claims

Age Grouping (in years)	Hospitals		Specialists		Medicines	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000	2016 R'000	2015 R'000
<26	143,582	127,909	72,927	73,138	25,417	23,173
26 - 35	2,033,883	1,777,092	1,088,799	1,057,377	569,344	485,357
36 - 50	4,325,700	3,915,856	2,624,794	2,627,142	1,946,881	1,654,062
51 - 65	3,169,142	2,648,794	1,936,174	1,778,326	1,453,547	1,167,320
>65	1,461,139	1,254,456	852,455	772,604	581,396	486,237
	11,133,446	9,724,107	6,575,149	6,308,587	4,576,585	3,816,149

Age Grouping (in years)	General Practitioners		Optometry		Other		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
<26	25,385	29,177	6,173	6,373	32,214	23,910	305,698	283,680
26 - 35	403,469	456,850	86,005	80,717	549,382	456,911	4,730,882	4,314,304
36 - 50	966,636	1,101,653	277,413	251,964	1,573,185	1,234,490	11,714,609	10,785,167
51 - 65	537,750	569,721	189,982	158,130	1,104,815	804,698	8,391,410	7,126,989
>65	116,681	116,414	38,080	32,568	424,819	306,897	3,474,570	2,969,176
	2,049,921	2,273,815	597,653	529,752	3,684,415	2,826,906	28,617,169	25,479,316

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

The Scheme's strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.

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

Claims development

Claims development tables are not presented since the uncertainty regarding the amount and timing of claim payments is typically resolved within one year and the majority of cases within four months. At year end, a provision is made of those claims outstanding that are not yet reported at that date. Details regarding the subsequent claim development in respect thereof have been disclosed in notes 10 and 21.

27 Financial Risk Management and Capital Management

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

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

The Scheme manages the financial risks as follows:

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

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

Market risk

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

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

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

27 Financial Risk Management and Capital Management (continued)

As at 31 December 2016

	Total value R'000	Currency risk R'000	Price risk R'000	Interest rate risk R'000
Cash and cash equivalents	3,177,474	-	-	3,177,474
Financial assets at fair value through profit or loss	861,523	44,072	401,905	415,546
Equities	169,909	-	169,909	-
Local bonds	231,996	-	231,996	-
Local money markets	415,546	-	-	415,546
Foreign money markets	17,845	17,845	-	-
Foreign bonds	26,227	26,227	-	-
	4,038,997	44,072	401,905	3,593,020

As at 31 December 2015

	Total value R'000	Currency risk R'000	Price risk R'000	Interest rate risk R'000
Cash and cash equivalents	3,405,171	-	-	3,405,171
Financial assets at fair value through profit or loss	447,076	24,416	159,357	263,303
Equities	85,977	-	85,977	-
Local bonds	73,380	-	73,380	-
Local money markets	263,303	-	-	263,303
Foreign money markets	9,447	9,447	-	-
Foreign bonds	14,969	14,969	-	-
	3,852,247	24,416	159,357	3,668,474

27 Financial Risk Management and Capital Management (continued)

Interest rate risk

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

Cash and cash equivalents comprise fixed deposits held for a period of up to 12 months, deposits held on call with banks, cash on hand and other short term liquid investments. These fixed deposits are readily convertible, within a 3 month period, to a known amount of cash and are subject to insignificant risk of change in value. Cash and cash equivalents are classified as loans and receivables.

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

As at 31 December 2016	**Up to 3 months**	**3 - 12 months**	**More than 12 months**	**Total**
Cash and cash equivalents	2,967,474	210,000	-	3,177,474
Financial assets at fair value through profit or loss				
Local money markets	123,333	53,004	239,209	415,546
	3,090,807	263,004	239,209	3,593,020

As at 31 December 2015				
Cash and cash equivalents	3,240,171	165,000	-	3,405,171
Financial assets at fair value through profit or loss				
Local money markets	56,300	10,000	197,003	263,303
	3,296,471	175,000	197,003	3,668,474

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

	2016	**2015**
Current accounts	5.46%	4.75%
Call accounts	6.69%	5.53%
Fixed deposits	7.51%	6.47%
Money market instruments carried at fair value through profit or loss	8.39%	7.28%

27 Financial Risk Management and Capital Management (continued)

Interest rate risk sensitivity analysis

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

Based on past experience and a reasonable possible change in interest rates within the life of the investment, the rate of 0.50% is considered appropriate in measuring the sensitivity of the Scheme's interest-bearing instruments. This sensitivity analysis assumes that all other variables remain constant.

At 31 December 2016, if interest rates had been 50 basis points higher, with all other variables held constant, the deficit for the year and accumulated funds would have been R23.18 million lower (2015: surplus would have been R20.51 million higher).

At 31 December 2016, if interest rates had been 50 basis points lower, with all other variables held constant, the deficit for the year and accumulated funds would have been R23.18 million higher (2015: surplus would have been R20.51 million lower).

Currency risk

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

For the purpose of seeking investment diversification, the Scheme has invested 5.12% (2015: 5.46%) of its financial assets at fair value through profit or loss in offshore bond and cash portfolios. At 31 December 2016 this equated to R44.07 million (2015: R24.42 million).

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

Currency risk sensitivity analysis

Based on past experience and a reasonable possible change in currency, a 10% and 15% change in currency is considered appropriate in measuring the Scheme's currency risk sensitivity. A 10% depreciation in the Rand would result in a gain of R2.98 million (2015: R0.85 million) and a 15% depreciation in the Rand would result in a gain of R4.62 million (2015: R1.29 million). A 10% appreciation in the Rand would result in a loss of R2.63 million (2015: R0.82 million) and a 15% appreciation in the Rand would result in a loss of R3.80 million (2015: R1.29 million). This impact would be recognised in the surplus and accumulated funds. The sensitivity is based on the assumption that the Rand has strengthened or weakened against the US Dollar by 10% or 15%, considered as a reasonable possible change, with all other variables held constant.

The following US Dollar exchange rate was applied.

	2016	**2015**
Average rate	14.70	12.74
Year-end closing rate	13.70	15.48

27 Financial Risk Management and Capital Management (continued)

Price risk

The Scheme is exposed to equity securities price risk due to equity investments held by the Scheme that are classified at fair value through profit and loss. The Scheme is indirectly exposed to equity risk through its investments in listed equities. The value of the equity investments was R169.91 million (2015: R85.98 million).

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

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

Equity price risk sensitivity analysis

Based on past experience and a reasonable possible change in equity prices, a 10% and 15% change in equity prices is considered appropriate in measuring the Scheme's equity price risk sensitivity. A 10% increase in the price of equities within the equity portfolios would result in a gain of R7.95 million (2015: R11.88 million) and a 15% increase would result in a gain of R25.18 million (2015: R17.90 million). A 10% decrease in the price would result in a loss of R7.73 million (2015: R11.93 million) and a decrease of 15% would result in a loss of R24.62 million (2015: R17.88 million). This impact would be recognised in the surplus and accumulated funds. The sensitivity is based on the assumption that equity prices had increased or decreased by 10% or 15%, considered as a reasonable possible change, with all other variables held constant.

27 Financial Risk Management and Capital Management (continued)

Liquidity risk

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

At 31 December 2016

Category	**Less than 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Over 1 year**	**Total**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**
Insurance liabilities:					
Outstanding claims provision	634,807	263,344	61,849	-	960,000
Claims reported not yet paid	845,515	-	-	-	845,515
Financial liabilities:					
Amounts owing to members and providers	130,017	-	-	-	130,017
Sundry payables and accrued expenses	212,834	-	-	-	212,834
Unallocated deposits	194	-	-	-	194
Personal medical savings accounts trust liability	656,318	-	-	-	656,318
Total liabilities	2,479,685	263,344	61,849	-	2,804,878
Financial assets at fair value through profit or loss	87,324	36,920	53,004	684,275	861,523
Scheme monies invested	2,667,474	300,000	210,000	-	3,177,474
Personal medical savings account trust monies invested	577,622	0	-	-	577,622
Available cash and investments	3,332,420	336,920	263,004	684,275	4,616,619
Excess liquidity	852,735	73,576	201,155	684,275	1,811,741

27 Financial Risk Management and Capital Management (continued)

Liquidity risk (continued)

At 31 December 2015

Category	Less than 1 month R'000	Between 1 and 3 months R'000	Between 3 months and 1 year R'000	Over 1 year R'000	Total R'000
Insurance liabilities:					
Outstanding claims provision	688 536	302 490	9 774	-	1 000 800
Claims reported not yet paid	199 678	-	-	-	199 678
Financial liabilities:					
Amounts owing to members and providers	-	-	103 376	-	103 376
Sundry payables and accrued expenses	195 464	-	-	-	195 464
Unallocated deposits	-	-	306	-	306
Personal medical savings accounts trust liability	493 715	-	-	-	493 715
Total liabilities	1 577 393	302 490	113 456	-	1 993 339
Financial assets at fair value through profit or loss	65 747	-	21 926	359 403	447 076
Scheme monies invested	2 600 171	640 000	165 000	-	3 405 171
Personal medical savings account trust monies invested	459 251	-	-	-	459 251
Available cash and investments	3 125 169	640 000	186 926	359 403	4 311 498
Excess liquidity	1 547 776	337 510	73 470	359 403	2 318 159

Personal medical savings account trust monies managed by the Scheme on behalf of its members (notes 8 and 9) are included in the liquidity risk calculation, as suggested in the Medical Schemes Accounting Guide. These balances are ring-fenced in terms of Circular 38 of 2011.

27 Financial Risk Management and Capital Management (continued)

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:

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

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

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

	2016 R '000	2015 R '000
Cash and cash equivalents		
ABSA Bank	665,000	715,000
First National Bank	77,264	262,440
Investec Bank	785,915	689,165
Nedbank	420,000	695,000
Standard Bank	300,000	-
South African Reserve Bank	789,294	693,566
Rand Merchant Bank	140,000	350,000
	3,177,474	3,405,171
Investec Bank (Personal medical savings account)	577,622	459,251
Fitch Ratings of Banks invested with:		
ABSA Bank	BBB-	BBB
First National Bank	BBB-	BBB-
Investec Bank	BBB-	BBB-
Nedbank	BBB-	BBB-
Standard Bank	BBB-	BBB-
South African Reserve Bank	A	A
Rand Merchant Bank	BBB-	BBB-
The maximum exposure to credit risk for financial assets at year end were as follows:		
Financial assets at fair value through profit or loss	691,615	361,099
Loans and receivables (Cash and cash equivalents)	3,177,474	3,405,171
Loans and receivables (Personal medical savings account)	577,622	459,251
Loans and receivables (Trade and other receivables)	305,114	318,107

27 Financial Risk Management and Capital Management (continued)

Credit risk (continued)

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

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

	Not past due, not impaired R '000	Past due, not impaired R '000	Impaired R '000	Total R '000
As at 31 December 2016				
Contribution debtors	184,791	2,609	492	187,892
Receivables from members and providers	48,141	9,107	53,475	110,722
Sundry accounts receivable	25,640	-	-	25,640
As at 31 December 2015				
Contribution debtors	190,898	3,313	11,124	205,335
Receivables from members and providers	40,604	12,268	13,588	66,460
Sundry accounts receivable	31,870	-	-	31,870

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

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

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

	0 - 30 days R '000	31 - 60 days R '000	61 - 90 days R '000	Total R '000
As at 31 December 2016				
Contribution debtors	184,791	1,398	1,211	187,400
Receivables from members and providers	48,141	7,078	2,029	57,248
As at 31 December 2015				
Contribution debtors	190,898	1,983	1,330	194,211
Receivables from members and providers	40,604	10,049	2,219	52,872

27 Financial Risk Management and Capital Management (continued)

Credit risk (continued)

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

	2016 R '000	2015 R '000
Receivables Impaired:		
Contribution debtors	492	11,124
120 days	492	11,124
Receivables from members and providers	53,475	13,588
120 days	53,475	13,588
Total	53,967	24,712

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

Fair value estimation

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

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

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

The members' Personal Medical Savings Accounts contain a demand feature. In terms of Regulation 10 of the Act, any credit balance on a member's Personal Medical Savings Account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit plan, and enrols 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' Personal Medical Savings Accounts are deemed to be equal to their fair values, which is the amount payable on demand.

27 Financial Risk Management and Capital Management (continued)

Credit risk (continued)

Fair value of financial assets by hierarchy level

	Carrying amount R'000	Total R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
At 31 December 2016					
Cash and cash equivalents	3,177,474	3,177,474	-	3,177,474	-
Financial assets at fair value through profit or loss	861,523	861,523	169,909	691,614	-
Equities	169,909	169,909	169,909	-	-
Local bonds	231,996	231,996	-	231,996	-
Local money markets	415,546	415,546	-	415,546	-
Foreign money markets	17,845	17,845	-	17,845	-
Foreign bonds	26,227	26,227	-	26,227	-
	4,038,997	4,038,997	169,909	3,869,088	-
At 31 December 2015					
Cash and cash equivalents	3,405,171	3,405,171	-	3,405,171	-
Financial assets at fair value through profit or loss	447,076	447,076	85,977	361,099	-
Equities	85,977	85,977	85,977	-	-
Local bonds	73,380	73,380	-	73,380	-
Local money markets	263,303	263,303	-	263,303	-
Foreign money markets	9,447	9,447	-	9,447	-
Foreign bonds	14,969	14,969	-	14,969	-
	3,852,247	3,852,247	85,977	3,766,270	-

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

The fair value hierarchy has the following levels:

Level 1 – These are assets measured using quoted prices in an active market.
Level 2 – These are assets measured using inputs other than quoted prices included within Level 1, that are either directly or indirectly observable.
Level 3 – These are assets measured using inputs that are not based on observable market data.

Annual Financial Statements for the year ended 31 December 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

27 Financial Risk Management and Capital Management (continued)

Capital adequacy risk

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

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

The Registrar of Medical Schemes, in terms of the business plan submitted by the Scheme in 2013 and 2015, agreed to revise the required solvency levels which will apply to the Scheme for each related year of operation:

	Actual levels	CMS approved levels
31 December 2013	11.66%	8.00%
31 December 2014	10.02%	8.90%
31 December 2015	9.46%	10.10%
31 December 2016	6.99%	9.90%

Solvency requirements approved by CMS for the following years are: 2017: 13.30%, 2018: 16.70%, 2019: 21.20% and 2020: 26.90%.

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

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

28 Events after the Reporting Period

There are no facts or circumstances of a material nature which have occurred between the reporting date and the date of this report.

29 Guarantees and Commitments

	2016 R '000	2015 R '000
The Scheme provided guarantees in favour of the following institutions during the year:		
Council for Medical Schemes	2,500	2,500
South African Post Office	5,000	5,000
	7,500	7,500

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

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

30 Regulatory Non-Compliance

To the best of the Scheme's knowledge, the compliance matters listed below cover all of the non-compliance matters for the 2016 financial year.

Late-paying employer groups

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

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

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

30 Regulatory Non-Compliance (continued)

Minimum accumulated funds

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

Cause
The Scheme's minimum accumulated funds ratio throughout the year was below the required target of 25% as provided for in the Act and below what was subsequently approved by the Registrar on 6 August 2013. Reserves below the required 25% prescribed by the Act may be an indication that a Medical Scheme may have solvency concerns, which would impact on the Scheme's ability to pay claims.

Corrective action
The Scheme is, however, accumulating funds in accordance with a business plan approved by the Registrar. The Registrar was notified of the Scheme's performance throughout 2016 with the submisison of quarterly performance reports and quarterly meetings with the CMS. The Scheme's solvency level at 31 December 2016 was 6.99% (2015: 9.46%) which was below the revised solvency level prescribed by the Registrar of Medical Schemes of 9.90% (2014: 10.10%). The factors influencing the reserves are described in detail in the Board of Trustees report.

Claims settled after 30 days

Nature
In terms of Section 59(2) of the Medical Schemes Act, the Scheme shall, in the case where an account has been rendered, pay to a member or a supplier of service, any benefit owing to that member or supplier of service within 30 days after the day on which the claim in respect of such benefit was received by the Scheme.

Cause
During the financial year, there were instances that were identified where the above regulation had not been complied with.

Corrective action
Additional controls have been put in place at the Administrator to mitigate the risk of non-compliance and the Scheme will ensure that these are tested as part of the Internal Audit process of the Scheme during the coming year.

30 Regulatory Non-Compliance (continued)

Benefit option

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

Cause
The Scheme's Emerald and Onyx options did not meet the self-sufficiency requirement in terms of Section 33(2) of the Medical Schemes Act. Loss-making options adversely affect the financial performance of the Scheme and the solvency ratio. This was primarily as a result of the 2016 claims experience (Emerald claims ratio: 97 % and Onyx claims ratio: 131 %). The claims on the Onyx option were driven by the option's older demographic profile, which resulted in higher claims being incurred relating to chronic and lifestyle-related diseases. The migration of the pre-1992 pensioners to this option in prior years also resulted in the financial performance being adversely affected during the financial year.

Corrective action
The Scheme is, however, accumulating funds in accordance with a business plan approved by the Registrar. The Registrar was notified of the Scheme's performance throughout 2016 with the submission of quarterly performance reports and quarterly meetings with the CMS. Part of the quarterly submission are actuarial reports for these specific options in order for CMS to see progress of the options against the business plan and budget for the year.

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