TFG MEDICAL AID SCHEME

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2018

TFG MEDICAL AID SCHEME

ANNUAL FINANCIAL REPORT
for the year ended 31 December 2018

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TFG MEDICAL AID SCHEME

FINANCIAL STATEMENTS
for the year ended 31 December 2018

SCHEME DETAILS

BOARD OF TRUSTEES	Mr M Wilson (Chairman) *	Employer appointed	
	Mr P Barnard	Employer appointed	
	Ms A Kotze	Employer appointed	
	Mr M Van Est (Vice Chairman) **	Employer appointed	
	Ms K Buys	Member elected	
	Ms T Mestern	Member elected	
	Ms J Vandenbroucke	Member elected	
	Mr AL Wepener	Member elected	(Resigned : 1 February 2018)
	Ms M Woods	Member elected	Appointed: 1 February 2018

* Mr M Wilson was appointed as acting Principal Officer for the period 29 May 2018 until 31 December 2018.

** Mr M van Est was appointed acting Chairman for the period 29 May 2018 until 31 December 2018.

PRINCIPAL OFFICER	Ms C Harris
REGISTERED OFFICE	1 Discovery Place Sandton 2196
POSTAL ADDRESS	PO Box 786722 Sandton 2146
AUDITOR Registered address of auditor	Deloitte &Touche 1st Floor, The Square, Cape Quarter 27 Somerset Road Green Point 8005
ADMINISTRATOR Postal address of administrator	Discovery Health (Pty) Ltd 1 Discovery Place Sandton 2196

TFG MEDICAL AID SCHEME

FINANCIAL STATEMENTS
for the year ended 31 December 2018

TRUSTEES' RESPONSIBILITY AND APPROVAL

The Trustees are responsible for the preparation and fair presentation of the financial statements of TFG Medical Aid Scheme, comprising the statement of financial position at 31 December 2018, and the statements of comprehensive income, changes in funds and reserves and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act of South Africa. In addition, the Trustees are responsible for preparing the report of the Board of Trustees.

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

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

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

Approval of the financial statements

The financial statements of TFG Medical Aid Scheme, as identified in the first paragraph, were approved by the Trustees on 17 April 2019 and are signed on their behalf by:

MR M WILSON	**MR M VAN EST**	**MS C HARRIS**
CHAIRMAN	TRUSTEE	PRINCIPAL OFFICER

TFG MEDICAL AID SCHEME

FINANCIAL STATEMENTS
for the year ended 31 December 2018

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

TFG Medical Aid Scheme (the Scheme) is committed to the principles and practice of responsibility, accountability, fairness and transparency with its dealings with all stakeholders. The Scheme is committed to ensure compliance with recognised framework and conducting its affairs in accordance with ethical values, furthermore to ensure the adoption of risk assesment, evaluation and management processes with regular monitoring of third party administrators and providers in accordance with the service level agreements. This includes an evaluation of their performance as a Board and of the Board sub-committees against an agreed terms of reference and performance targets, establishment and management of internal controls by assessing the adequacy and effectiveness through the appointment of an internal auditor and calling on of expert and professional advice when required. Four Trustees are appointed by the Employer of the Scheme and four are elected by the members of the Scheme.

BOARD OF TRUSTEES

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

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

INTERNAL CONTROL

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

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

MR M WILSON	**MR M VAN EST**	**MS C HARRIS**
CHAIRMAN	TRUSTEE	PRINCIPAL OFFICER

17 April 2019

TFG MEDICAL AID SCHEME

REPORT OF THE BOARD OF TRUSTEES

The Board of Trustees hereby presents its report for the year ended 31 December 2018

1. DESCRIPTION OF MEDICAL SCHEME

1.1 Terms of registration

TFG Medical Aid Scheme is a not-for-profit restricted Scheme registered in terms of the Medical Schemes Act, No 131 of 1998 (the Act), as amended.

1.2 Benefit options within TFG Medical Aid Scheme

The Scheme offers two benefit options, with no option of a savings account, to current and retired employees of Foschini Group Limited and its subsidiaries. The benefit options are:

- Plan A; and
- Plan B

As part of the annual benefit design, the Trustees renamed Plan A to TFG Health and Plan B to TFG Health Plus for the 2019 benefit year.

2. MANAGEMENT

2.1 Board of Trustees in office during the year under review

Employer appointed trustees

Mr M Wilson (Chairman)
Mr P Barnard
Ms A Kotze
Mr M Van Est (Vice Chairman)

Member elected trustees

Ms K Buys	
Ms T Mestern	
Ms J Vandenbroucke	
Mr AL Wepener	(Resigned : 1 February 2018)
Ms M Woods	Appointed: 1 February 2018

2.2 Principal Officer

Ms C Harris
Foschini Retail Group (Pty) Ltd
Stanley Lewis Centre
340 Voortrekker Road
Parow East
7501

PO Box 6020
Parow East
7501

2.3 Registered office address and postal address

1 Discovery Place
Sandton
2196

PO Box 786722
Sandton
2146

2.4 Scheme's administrator during the year

Discovery Health (Pty) Ltd
1 Discovery Place
Sandton
2196

PO Box 786722
Sandton
2146

2.5 Principal Banker

First National Bank
PO Box 1153
Johannesburg
2000

2.6 Auditor

Deloitte &Touche
1st Floor, The Square, Cape Quarter
27 Somerset Road
Green Point
8005

2.7 Actuarial Consultants

Alexander Forbes Financial Services Holdings (Pty) Ltd
40 Dorp Street
Stellenbosch
7599

PO Box 700
Stellenbosch
7599

2.8 Investment Consultants

Willis Towers Watson
Montclare Place
23 Main Road
Claremont
7708

Private Bag X30
Rondebosch
7701

3. INVESTMENT STRATEGY

The Scheme's investment objectives are to maximise the return on its investments on a long term basis at an appropriate risk. The investment strategy takes into consideration both constraints imposed by legislation and those imposed by the Board of Trustees.

The Board of Trustees are responsible for all the investment decisions, and part of their strategy is to ensure that:

- the Scheme remains liquid;
- investments are placed at appropriate risk and the best possible rate of return;
- investments are made in compliance with the regulations of the Act; and
- a risk assessment is performed with feedback to the Board of Trustees with recommendations on the risks identified.

The Scheme invested in short term fixed deposits, collective investment schemes and cash instruments during 2018. This policy is reviewed on an ongoing basis, taking into consideration compliance with the Act, the risk and returns of various investment instruments and the surplus funds available to invest.

The Scheme invested in an equity collective investment scheme through Allan Gray Life Limited which at year-end amounted to 32% (2017: 35%) of the Scheme's assets. The Scheme also invested 22% (2017: 22%) of it's asset value in a Sanlam Investment Management Absolute Return Medical Aid Portfolio and 22% (2017: 21%) of it's asset value in a Prescient Life Positive Return Medical Aid Portfolio. The objective with these investment is to maximise capital growth over a longer term.

4. MANAGEMENT OF INSURANCE RISK

The primary insurance activity carried out by the Scheme indemnifies covered members and their dependants against the risk of significant loss arising as a result of the occurrence of a health event (i.e. an event relating to the health of the Scheme's beneficiary). As such, the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

The Scheme manages its insurance risk through benefit limits and sub-limits, application of clinical protocols, approval procedures for transactions that exceed set limits, pricing guidelines, pre-authorisation and case management, service provider profiling, and the regular monitoring of emerging issues.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and/or severity of claims is greater than expected.

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

The Board of Trustees frequently assess the necessity to enter into risk transfer arrangements in order to manage the Scheme's insurance risk. Currently the Scheme has not entered into any risk transfer arrangements.

5. REVIEW OF ACCOUNTING PERIOD ACTIVITIES

5.1 Results of operations

The results of the Scheme's operation for the year under review and financial position at 31 December 2018 are set out in the financial statements, and the trustees believe that no further clarification is required.

5.2 Operational statistics per benefit option

	2018 Plan A	2018 Plan B	2018 Total
Number of members at year-end	1,851	1,112	2,963
Average number of members for the accounting period	1,844	1,115	2,959
Average number of beneficiaries for the accounting period	3,899	2,606	6,505
Beneficiaries per member	2.1	2.3	2.2
Average age per beneficiary	29	38	32
Pensioner ratio (beneficiaries >65 years old)	3%	13%	7%
Average risk contribution pmpm	2,956	5,366	3,864
Average risk contribution pbpm	1,398	2,296	1,758
Average relevant healthcare expenditure pmpm	2,686	5,414	3,714
Average relevant healthcare expenditure pbpm	1,270	2,316	1,689
Average administration expense pmpm	223	223	223
Average managed care: management services pmpm	95	96	95
Relevant healthcare expenditure as a percentage of contributions	90.9%	100.9%	96.1%
Non-healthcare expenditure as a percentage of contributions	8.6%	4.7%	6.6%
Return on investments as a percentage of investments	-	-	0.0%
Accumulated funds per member at 31 December	-	-	52,840

	2017 Plan A	2017 Plan B	2017 Total
Number of members at year-end	1,847	1,093	2,940
Average number of members for the accounting period	1,840	1,096	2,936
Average number of beneficiaries for the accounting period	3,867	2,545	6,412
Beneficiaries per member	2.1	2.3	2.2
Average age per beneficiary	28	38	32
Pensioner ratio (beneficiaries >65 years old)	3%	14%	7%
Average risk contribution pmpm	2,782	5,409	3,763
Average risk contribution pbpm	1,324	2,329	1,723
Average relevant healthcare expenditure pmpm	2,453	4,642	3,270
Average relevant healthcare expenditure pbpm	1,167	1,999	1,497
Average administration expense pmpm	210	210	210
Average managed care: management services pmpm	90	90	90
Relevant healthcare expenditure as a percentage of contributions	88.2%	85.8%	86.9%
Non-healthcare expenditure as a percentage of contributions	8.5%	4.4%	6.3%
Return on investments as a percentage of investments	-	-	12.3%
Accumulated funds per member at 31 December	-	-	48,331

pmpm - per member per month
pbpm - per beneficiary per month

5.3 Reserve accounts

The Scheme implemented IFRS 9 and classified its investments as fair value through profit or loss. The available-for-sale revaluation reserve was added to the accumulated funds as at 31 December 2017, and the fair value movement of the investments for the reporting period was accounted for in profit or loss.

5.4 Outstanding claims

Movements on the outstanding claims provisions are clearly set out in the notes to these financial statements. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Scheme.

5.5 Accumulated funds ratio

	2018 R	2017 R
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per statement of financial position	156,566,143	160,230,919
Less: Cumulative net gains on re-measurement to fair value of financial instruments	(16,401,821)	(18,139,067)
Accumulated funds per Regulation 29	**140,164,322**	**142,091,852**
Gross risk contribution income (Note 8)	**137,214,832**	**132,567,381**
Accumulated funds ratio per Regulation 29	**102.15%**	**107.18%**

6. AUDIT COMMITTEE

An Audit Committee, established in accordance with the provisions of the Act, is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The Committee consists of six members of which two are members of the Board of Trustees. The rest of the members, including the chairperson, are not officers of the Scheme or its third party administrator. The Committee met twice during 2018. Attendance of these meetings are disclosed in note 10 of the Report of the Board of Trustees.

In accordance with the provisions of the Act, the primary responsibility of the Committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems and financial reporting practices. The external and internal auditors formally report to the Committee on critical findings arising from audit activities.

7. INVESTMENTS IN AND LOANS TO THE EMPLOYER OR MEMBERS OF THE MEDICAL SCHEME AND TO OTHER RELATED PARTIES

The Scheme has granted no loans to the participating employers of the Scheme. Refer to note 9.2 of the Report of the Board of Trustees for details about investments in the participating employer.

8. ACTUARIAL SERVICES

The Scheme's actuaries have been consulted in the determination of the contribution and benefit levels. They monitor the Scheme's claims expenditure and underwriting results on a monthly basis.

9. NON-COMPLIANCE MATTERS

9.1 Contributions not received within three days of it becoming due

In terms of Section 26(7) of the Act, all contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due.

There were a small number of instances, during the year, where the Scheme received contributions after three days of becoming due, however, there are no contracts in place agreeing to this arrangement.

Procedures are in place regarding the collection of these contributions.

9.2 Investment in participating employer and medical administrators

In terms of Section 35(8) of the Act, a medical scheme is prohibited from investing any of its assets in an employer who participates in that scheme or any medical scheme administrators.

At 31 December 2018 the Scheme indirectly held shares in The Foschini Group Ltd, MMI Holdings Ltd, Liberty Holdings Ltd, Discovery Ltd and Sanlam Limited to the value of R150,963 (2017: R0); R694,008 (2017: R800,028); R74,484 (2017: R54,740); R0 (2017: R16,732) and R339,703 (2017: R421,500) respectively.

Funds in this specific portfolio are structured at the sole discretion of the asset manager in a manner that maximizes returns. Therefore the Scheme does not make inputs into the structuring of the portfolio. The Scheme has received exemption from this section of the Act.

9.3 Limitation of assets - equity exposure

At 31 December 2018, the Scheme indirectly held shares amounting to 40.35% (2017: 46.93%) of the minimum aggregate of the fair value of liabilities and the minimum accumulated funds to be maintained by a medical scheme, which exceeded the 40% limitation imposed by category 4(a) of Annexure B to the Regulations of the Act.

The Scheme has issued a certified statement with regard to Regulation 30(3A) of the Medical Schemes Act 191 of 1998 prepared by a qualified person to the Council for Medical Schemes, notifying them of the Scheme's intention to invest excess assets in more equity, taking the Scheme's healthy solvency ratio into account.

9.4 Sustainability of benefit options

In terms of S33(2)(b) of the Medical Schemes Act 131 of 1998, as amended, each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound.

At 31 December 2018, the Scheme's Plan B option did not comply with S33(2)(b) of the Medical Schemes Act 131 of 1998, as the option recorded a deficit of R4,034,185.

Option B experienced claims in excess of expectations and a few high cost claims added to the claims experienced caused the option to record a deficit for the year.

The Trustees made changes to the benefit design and contributions for the new benefit year, and the expectation is that the option will return to a surplus position.

REPORT OF THE BOARD OF TRUSTEES (continued)

10 MEETING ATTENDANCES

The following schedule sets out Board of Trustee meeting attendances and attendances by members of board sub-committees.

Trustee/Sub-committee member	Board of Trustee meetings		Audit committee meetings	
	A	B	A	B
Mr M Wilson (Chairman)	7	7	2	2
Mr P Barnard	7	6		
Ms K Buys	7	6	2	1
Ms A Kotze	7	5		
Ms T Mestern	7	6		
Mr M Van Est (Vice Chairman)	7	7	2	2
Ms J Vandenbroucke	7	6		
Mr AL Wepener @	-	-		
Ms M Woods #	7	6		
Mr H Nell (Audit Comm Chairman) *			2	2
Ms L Mazana *			2	2
Mr M McDonald *			2	2
Ms M von Solms *			2	2
Ms C Harris (Principal Officer)	7	2		

A - Total possible number of meetings that could have been attended
B - Actual number of meetings attended
* - Independent audit committee member
# - Appointed during the year
@ - resignation/end of term

Deloitte.

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South Africa

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INDEPENDENT AUDITOR'S REPORT
To the Members of the TFG Medical Aid Scheme

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the TFG Medical Aid Scheme set out on pages 16 to 48 which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, the statement of changes in funds and reserves and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the TFG Medical Aid Scheme as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Medical Schemes Act of South Africa.

Basis for Opinion

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

Key Audit Matters

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

National Executive: *LL Bam Chief Executive Officer *TMM Jordan Deputy Chief Executive Officer; Clients & Industries *MJ Jarvis Chief Operating Officer
*AF Mackie Audit & Assurance *N Sing Risk Advisory DP Ndlovu Tax & Legal TP Pillay Consulting *JK Mazzocco Talent & Transformation
MG Dicks Risk Independence & Legal *KL Hodson Financial Advisory *TJ Brown Chairman of the Board
Regional leader: MN Alberts

A full list of partners and directors is available on request * Partner and Registered Auditor

B-BBEE rating: Level 1 contribution in terms of the DTI Generic Scorecard as per the amended Codes of Good Practice

Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

Key Audit Matters	How the Matter was Addressed during the audit
Outstanding Claims Provision	
IFRS requires the scheme to make provision for all future cash outflows for which the past event has occurred. In doing so the Scheme calculates a best estimate of claims payments for claim events occurring prior to year-end but for which the Scheme has not been notified. This amount is disclosed on the face of the statement of financial position as well as in note 5 of the annual financial statements. This matter is considered a key audit matter as the underlying calculation requires a use of significant assumptions, estimates and judgement by management.	• We assessed the report and expertise of the organisation performing the calculation for reasonability; • We performed tests of detail on the current year payments relating to the prior year provision to assess the degree of accuracy in the estimate; • We challenged key assumptions over future claims to be paid and the calculation methodology therein; and • We engaged with management around the rational for any adjustments or decisions over and above the numeric calculation. Our procedures satisfied us to the reasonableness of the estimate.
Claims Expense	
Risk claims incurred is a key audit focus area and represents a significant expense in the Statement of profit and loss. The validity and accuracy of the claims are dependent on the Scheme's administration and IT system involved in the processing of claims. Due to extensive audit focus and the high volume of claims processed by the Scheme, risk claims incurred was considered a key audit matter for this year end.	• We assessed the report of internal audit over the claims control environment and concluded that a substantive approach was the appropriate approach to follow; • We compared a sample of the claim expenses paid to the actual claim form submitted, the benefits balance and tariffs provided for in terms of the rules and the applicable PMB in order to assess validity of actual claims paid; • We calculated the number of days between date of payment and date of receipt of claim, and investigated reasons for claims paid after more than 30 days; • We tested whether the claims selected for testing were submitted within four months of treatment date; • We used computer assisted audit techniques ("CAATs") to identify potential duplicate claim payments, and tested a sample of these to verify whether these were "valid" duplicates; and • We verified that contributions were up to date at the date of treatment where claims were paid, or obtained proof that appropriate approval was obtained from the trustees to pay the claim.

Other Information

The Trustees are responsible for the other information. The other information comprises of the Scheme details, Trustees' responsibility and approval, Statement of corporate governance by the Board of Trustees and the Report of the Board of Trustees as required by the Medical Schemes Act of South Africa. 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.

Trustees' Responsibility for the Annual Financial Statements

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

In preparing the annual financial statements, the 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 trustees either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the annual 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 annual financial statements.

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

- Identify and assess the risks of material misstatement of the annual 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 trustees.

- Conclude on the appropriateness of the 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 annual 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 annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee 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.
We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the annual 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

The following reporting is performed in compliance with the Medical Schemes Act of South Africa and not in terms of the ISAs.

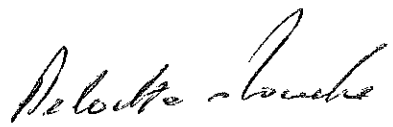
Non-compliance with the Medical Schemes Act

As required by the Council for Medical Schemes, we report that there are no material instances of non-compliance with the requirements of the Medical Schemes Act of South Africa, that have come to our attention during the course of our audit. These have been fully disclosed in note 20 to the financial statements.

Audit tenure

As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that Deloitte has been the auditor of TFG Medical Aid Scheme for two years.

The engagement partner below has been responsible for the audit for two years.



Deloitte & Touche
Registered Auditor
Per: Brian Botes
Partner
24 April 2019

TFG MEDICAL AID SCHEME

STATEMENT OF FINANCIAL POSITION
at 31 December 2018

	Notes	2018 R	2017 R
ASSETS			
Non-current assets		126,419,862	128,869,428
Fair value through profit or loss investment	2	126,419,862	-
Available-for-sale investment		-	128,869,428
Current assets		38,336,044	36,940,811
Trade and other receivables	3	493,690	234,725
Cash and cash equivalents	4	37,842,354	36,706,086
Total assets		**164,755,906**	**165,810,239**
FUNDS AND LIABILITIES			
Members' funds		156,566,143	160,230,919
Accumulated funds		156,566,143	142,091,852
Available-for-sale reserve		-	18,139,067
Current liabilities		8,189,763	5,579,320
Outstanding risk claims provision	5	5,600,000	3,000,000
Trade and other payables	6	2,589,763	2,579,320
Total funds and liabilities		**164,755,906**	**165,810,239**

TFG MEDICAL AID SCHEME

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Notes	2018 R	2017 R
Risk contribution income	7	**137,214,832**	**132,567,381**
Relevant healthcare expenditure		**(131,871,733)**	**(115,217,049)**
Net risk claims incurred		(128,481,226)	(112,049,705)
Risk claims incurred	8	(128,735,195)	(112,335,020)
Third party claims recoveries		253,969	285,315
Managed care: management services fees	9	(3,390,507)	(3,167,344)
Gross healthcare results		**5,343,099**	**17,350,332**
Administration expenses		(7,910,561)	(7,390,118)
Other operating expenses	10	(1,099,082)	(831,095)
Net impairment losses on healthcare receivables	11	(13,822)	(95,411)
Net healthcare results		**(3,680,366)**	**9,033,708**
Other income		**15,590**	**2,229,405**
Investment income	12	31,291	2,236,758
Sundry expense	13	(15,701)	(7,353)
Net (deficit)/surplus for the year		**(3,664,776)**	**11,263,113**
Other comprehensive income		-	12,572,834
Unrealised fair value gains on available-for-sale investment	2	-	10,749,459
Realised losses on disposal of available-for-sale investments	12	-	1,823,375
Total comprehensive income for the year		**(3,664,776)**	**23,835,947**

TFG MEDICAL AID SCHEME

STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2018

	Accumulated funds	Available-for-sale reserve	Members' funds
	R	R	R
Balance at 1 January 2017	**130,828,739**	**5,566,233**	**136,394,972**
Total comprehensive income for the year	11,263,113	12,572,834	23,835,947
Net surplus for the year	11,263,113	-	11,263,113
Other comprehensive income	-	12,572,834	12,572,834
Unrealised gains on fair value through profit or loss investments	-	10,749,459	10,749,459
Realised gains on fair value through profit or loss investment	-	1,823,375	1,823,375
Balance at 31 December 2017	**142,091,852**	**18,139,067**	**160,230,919**
IFRS 9 transition adjustment	18,139,067	(18,139,067)	-
Total comprehensive income for 2018	(3,664,776)	-	(3,664,776)
Balance at 31 December 2018	**156,566,143**	**-**	**156,566,143**

TFG MEDICAL AID SCHEME

STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

	Notes	2018 R	2017 R
CASH FLOWS FROM OPERATING ACTIVITIES			
(Deficit)/surplus for the year		(3,664,776)	11,263,113
Adjustments for:			
Dividends received	12	(1,731,439)	(1,858,435)
Interest received	12	(2,632,883)	(3,330,580)
Realised loss on disposal of investments	12	1,827,899	1,823,375
Unrealised loss on investments		1,737,246	-
Movement in outstanding claims provision	5	6,848,765	2,877,914
Cash flows from operations before working capital changes		**2,384,812**	**10,775,387**
Working capital changes			
• (Increase)/decrease in trade and other receivables		(258,965)	844,112
• Decrease in outstanding claims provision		(4,248,765)	(1,677,914)
• Increase/(decrease) in trade and other payables		10,443	(259,071)
Cash flows from operations		**(2,112,475)**	**9,682,514**
Interest income	12	2,632,883	3,330,580
Dividend income	12	1,731,439	1,858,435
Net cash flows from operating activities		**2,251,847**	**14,871,529**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of investments		767,779	16,000,000
Acquisition of investments		(1,883,358)	(40,370,193)
Proceeds on disposals of held-to-maturity investments		-	13,500,000
Net cash flows from investing activities		**(1,115,579)**	**(10,870,193)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,136,268**	**4,001,336**
Cash and cash equivalents at beginning of year		36,706,086	32,704,750
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**37,842,354**	**36,706,086**

GENERAL INFORMATION

TFG Medical Aid Scheme is a not-for-profit restricted Scheme registered under the Medical Schemes Act of South Africa.

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

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Medical Schemes Act of South Africa (the Act). The financial statements are prepared on the going concern principle using the historical cost basis, except where indicated otherwise below.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out those areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the Scheme's financial statements (Note 19).

These financial statements are presented in Rands, which is the Scheme's functional currency. Rounding of all amounts are to the nearest Rand.

New standards, amendments and interpretations effective in 2018 and relevant to the Scheme.

The Scheme has retrospectively applied IFRS 9 as from 1 January 2018, with adjustments being reflected in the opening balances on the Statement of Changes in Funds and Reserves. The transitional approach was applied whereby the comparative financial results were not restated, therefore up until 31 December 2017, the financial results were presented in accordance with IAS 39, whereas from 1 January 2018 forward, the classification and disclosures be reported in accordance with IFRS 9. The IFRS 9 accounting policies were applied to 2018 transactions and balances.

The Scheme previously classified its financial assets as "Available-for-sale investments". The changes introduced by the new IFRS 9 standard had an impact on the Scheme as the current business model suggest a re-classification of financial assets. Effective 1 January 2018 the Scheme has applied the new standard and now classifies its investments as "Fair value through profit or loss".

The impact on the Scheme: Unrealised gains and losses from investments classified as Fair value through profit or loss will now reflect in profit or loss. In the previous year unrealised gains and losses were reflected in the Available-for-sale reserve.

New standards, amendments and interpretations not yet effective in 2018 and relevant to the Scheme

IFRS 17 Insurance Contracts - IFRS 17 supersedes IFRS 4 Insurance Contracts and aims to increase comparability and transparency about profitability. The new standard introduces a new comprehensive model ("general model") for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts, such as: • Reinsurance contracts held; • Direct participating contracts; and •Investment contracts with discretionary participation features. Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or OCI. The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on the entity's financial statements. The entity is in the process of determining the impact of IFRS 17 and will provide more detailed disclosure on the impact in future financial statements. The standard is effective for annual periods beginning on or after 1 January 2022. Early adoption is permitted.	01 January 2022

1.2 Financial instruments

Until 31 December 2017, the Scheme classified its financial assets in the following categories:

- Financial assets at fair value through profit or loss,
- Loans and receivables,
- Held-to-maturity investments, and
- Available-for-sale financial assets.

Available-for-sale investments revaluation reserve

The Scheme retrospectively adopted IFRS 9 on 1 January 2018. Based on the transitional approach adopted, as permitted by IFRS 9, comparative financial results were not restated. Accordingly, the Scheme's previously reported financial results up to 31 December 2017 are presented in accordance with the requirements of IAS 39 and for 2018, and future reporting periods, are presented in terms of IFRS 9. The impact of this is that 2017 classification and disclosures are under IAS 39, and 2018 are under IFRS 9. The IFRS 9 accounting policies therefore apply to 2018 transactions, with the comparatives under IAS 39.

Available-for-sale investments

Available-for-sale investments include equity investments. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through statement of comprehensive income. After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrecognised gains or losses recognised as other comprehensive income in the available-for-sale investments revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other income, or if the investment is determined to be impaired, when the cumulative loss is reclassified from the available for sale reserve to statement of comprehensive income.

1.2 Financial instruments (continued)

From 1 January 2018, the Scheme classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through Other Comprehensive Income or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or Other Comprehensive Income. For investments in equity instruments that are not held for trading, this will depend on whether the Scheme has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Scheme reclassifies debt investments when and only when its business model for managing those assets changes.

The Scheme has grouped the financial instruments in the following categories:
- Trade and other receivables;
- Cash and cash equivalents;
- Trade and other payables;
- Medical savings accounts; and
- Fair value through profit or loss investments.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or Other Comprehensive Income. For investments in equity instruments that are not held for trading, this will depend on whether the Scheme has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Scheme reclassifies debt investments when and only when its business model for managing those assets changes.

Financial assets

Recognition and Derecognition
Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Scheme commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Scheme has transferred substantially all the risks and rewards of ownership.

The Scheme previously classified its financial assets as "Available-for-sale investments". The changes introduced by the new IFRS 9 standard had an impact on the Scheme as the current business model suggest a re-classification of financial assets. Effective 1 January 2018 the Scheme has applied the new standard and now categories its investments as "Fair value through profit or loss".

Classification
IFRS 9 contains three major categories relating to the classification of debt instruments.
- Measured at amortised cost;
- Measured at fair value through other comprehensive income (FVOCI); and
- Measured at fair value through profit or loss (FVTPL)

(a) Amortised Cost
A financial asset shall be measured at amortised cost if both of the following conditions are met:
1. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
2. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

1.2 Financial instruments (continued)

(b) Fair value through other comprehensive income (FVOCI)
A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:
1. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

2. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(c.) Fair value through profit or loss (FVTPL)
Financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income . However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

Initial and Subsequent Measurement

Fair value measurement

The Scheme measures its investments in financial instruments, such as equity instruments, debentures, other interest bearing investments and derivatives, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Scheme. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest

Financial assets held at amortised cost

Trade and other receivables are initially measured at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest method.
Interest income is recognised less any expected credit impairment losses which are recognised as part of credit impairment charges.
Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Investments held at fair value through profit or loss
Financial assets carried at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the profit or loss. Gains or losses arising from changes in the fair value, dividend and interest returns are presented in profit or loss within the period in which they arise.

Cash and cash equivalents

In the statement of cash flow, cash and cash equivalents comprise:
- Money market accounts;
- Money on call and short notice deposits; and
- Current accounts.

Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. Cash and cash equivalents have an insignificant risk of changes in fair value.

Impairment
The Scheme recognises a loss allowance for expected credit losses on Trade and other receivables. The expected credit loss model requires the Scheme to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In determining impairment of Insurance Receivables, the incurred loss model adopted under IFRS 4: Insurance Contracts has been assessed and is reasonable and appropriate to determine impairment of Insurance Receivables and this model will continued to be applied and the expected credit loss model not adopted to determine impairment of Insurance Receivables.

The Scheme classifies its investments as Fair value through profit or loss. Impairment in investments instruments are therefor recognised in profit or loss as and when it occurs.

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

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

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

Financial liabilities

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity. Financial liabilities include trade and other payables. The Scheme is not permitted to borrow, in terms of Section 35(6)(c) of the Act. The Scheme therefore has no long-term financial liabilities.

Trade and other payables
Trade and other payables are measured initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. The Scheme's trade and other payables consist of insurance and other liabilities.

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

Provisions

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

Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

1.2 Financial instruments (continued)

Outstanding risk claims provision

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

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

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

1.3 Member insurance contracts

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

The contracts issued compensate the Scheme's members for healthcare expenses incurred and are detailed in note 17.

1.4 Risk contribution income

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

1.5 Risk claims incurred

Gross claims incurred comprise of the total estimated cost of all claims arising from healthcare events that have occurred in the year and for which the Scheme is responsible, whether or not reported by the end of the year.
Risk claims incurred (net of recoveries from members for co-payments, recoveries from third parties (e.g. motor vehicle accident and forensic recoveries and discounts received from service providers) comprise:

- Risk claims submitted and accrued for services rendered during the year;
- Payments under provider contracts (managed care) for services rendered to members;
- Over or under provision relating to prior year claims accruals; and
- Risk claims incurred but not yet reported.

1.6 Liability adequacy test

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

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

1.7 Managed care: management services fees

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

1.8 Investment income

Investment income comprises dividends, interest income from cash and cash equivalents and fair value through profit or loss investments as well as realised and unrealised gains on fair vale through profit or loss investments.

Interest income is recognised on the effective interest method, taking account of the principal amount and the effective rate over the period to maturity, when it is determined that such income will accrue to the Scheme. Dividend income from investments is recognised when the right to receive payment is established. Realised and unrealised gains on fair value through profit or loss investment are recognised in profit or loss.

1.9 Unallocated funds

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

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

1.10 Income tax

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

1.11 Allocation of income and expenditure to benefit options

The following items are directly allocated to benefit options:

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

The remaining items are allocated based on the average number of members per benefit option.

		2018 R	2017 R
2.	**FAIR VALUE THROUGH PROFIT OR LOSS INVESTMENTS**		
	Fair value at the beginning of the year	128,869,428	-
	Additions	1,883,358	-
	Disposals	(767,779)	-
	Unrealised (losses)/gains	(3,565,145)	-
	Fair value at the end of the year	**126,419,862**	**-**
	AVAILABLE-FOR-SALE INVESTMENTS		
	Fair value at the beginning of the year	-	93,749,776
	Additions	-	40,370,193
	Disposals	-	(16,000,000)
	Unrealised (losses)/gains	-	10,749,459
	Fair value at the end of the year	**-**	**128,869,428**
	The investment represents investments in:		
	Collective investment schemes	126,419,862	128,869,428
		126,419,862	**128,869,428**

Fair value through profit or loss investments for 2018 and Available-for-sale investments for 2017 are classified as non-current assets, unless they are expected to be realised within twelve months of the reporting date or unless they need to be sold to raise operating capital.

3.	**TRADE AND OTHER RECEIVABLES**		
	Insurance receivables		
	Contributions outstanding	229,134	10,631
	Recoveries from members and suppliers	108,619	89,485
	Amount due	297,160	264,204
	Impairment losses	(188,541)	(174,719)
	Total receivables arising from insurance contracts	**337,753**	**100,116**
	Loans and receivables		
	Interest receivable	38,362	14,580
	Sundry accounts receivable	117,575	120,029
	Total receivables arising from loans and receivables	**155,937**	**134,609**
	Total trade and other receivables	**493,690**	**234,725**

At 31 December 2018 the carrying amounts of loans and receivables approximate their fair values due to the short term maturities of these assets. Interest is not charged on overdue balances. The estimated future cash flow receipts have not been discounted as the effect would be immaterial.

		2018 R	2017 R
4.	**CASH AND CASH EQUIVALENTS**		
	Current accounts	2,077,908	1,707,537
	Money market	35,764,446	34,998,549
	Total current, call and fixed accounts	**37,842,354**	**36,706,086**

The weighted average effective interest rate on short-term bank deposits was 6.09% (2017: 6.63%) and on the money market account was 7.50% (2017: 7.96%).

At 31 December 2018 the carrying amounts of cash and cash equivalents approximate their fair values due to the short term maturities of these assets.

5.	**OUTSTANDING RISK CLAIMS PROVISION**		
	Outstanding risk claims provision - not covered by risk transfer arrangements	**5,600,000**	**3,000,000**
	Analysis of movement in outstanding risk claims		
	Balance at beginning of year	3,000,000	1,800,000
	Payments in respect of prior year	(4,248,765)	(1,677,914)
	(Under)/over provision in respect of prior year	(1,248,765)	122,086
	Adjustment for the current year	6,848,765	2,877,914
	Balance at end of year	**5,600,000**	**3,000,000**

The Scheme's rules, in terms of the Act, provide that risk claims may only be paid if the Scheme is notified of the risk claim and documentation is submitted within 4 months following the month in which the service was rendered. The provision is determined by the Scheme's actuary and is estimated using a range of statistical methods.

The outstanding risk claims provision is an estimate of the proportion of the risk claims liability incurred in the current financial year that is expected to be reported and only paid after the reporting date. The cost of outstanding risk claims is estimated as the difference between the risk management facility's estimate of risk claims incurred in 2018 and the actual risk claims reported and paid in 2018, for services provided in 2018.

The risk claims incurred by service date estimates are based on the Scheme's actual demographic structure and past claims. Due to differences in claiming patterns, risk claims are grouped into in-hospital, chronic and out-of-hospital claim categories, and the risk claims incurred are assessed separately for each category. Results from the assessment are regularly reconciled with actual paid risk claims and adjustments made where necessary to ensure that these results remain accurate.

5. OUTSTANDING RISK CLAIMS PROVISION (continued)

Process used to determine the assumptions
The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

This is done via a sophisticated multi-simulation actuarial model which incorporates updated demographic and risk claims data. The outstanding risk claims provision is calculated as the difference between the risk claims projected for the period less the risk claims paid up to the end of that period. This process is done on a monthly basis and regularly reconciled with the actual experience.

Assumptions
The assumptions that have the greatest effect on the measurement of the outstanding risk claims provision are the expected claims ratios for the most recent benefit years for the in-hospital, chronic and out-of-hospital categories of claims. These are used for assessing the outstanding risk claims provisions for the 2018 and 2017 benefit years.

The assumptions used in estimating the risk claims incurred for the Scheme are as follows:

Membership
The actual demographics of the Scheme were used, incorporating all membership movements for the period January to December. Membership is analysed on a beneficiary level by option, age, gender, area, type of dependant and chronic status of dependant.

Reasonability checks
This estimation was tested against estimations produced by the following calculations:
- Actual risk claims paid in 2018 for 2017;
- Traditional "chain ladder" methods, using risk claims development patterns derived from 2017 and 2018 as well as an analysis of the development patterns of December 2017 in isolation (i.e adjustments for seasonality); and
- An analysis of risk claims already paid in 2019 for 2018.

Refer to note 17 for an analysis of the impact of changes in assumptions and sensitivities to changes in key variables.

		2018 R	2017 R
6.	**TRADE AND OTHER PAYABLES**		
	Insurance liabilities		
	Member and supplier liability - stale cheques	3,719	2,182
	Reported claims not yet paid	1,310,356	1,343,715
	Balance at the beginning of the year	1,343,715	1,706,176
	Total claims for the year	128,735,195	112,335,020
	Claims paid for the year	(128,768,554)	(112,697,481)
	Total liabilities arising from insurance contracts	**1,314,075**	**1,345,897**
	Other liabilities		
	Related party balance	961,480	980,117
	Discovery Health (Pty) Ltd	961,480	980,117
	Audit fee accrual	224,115	214,600
	Other payables	47,077	29,318
	Unallocated deposits	43,016	9,388
	Total financial liabilities	**1,275,688**	**1,233,423**
	Total trade and other payables	**2,589,763**	**2,579,320**

At 31 December 2018 the carrying amounts of other liabilities approximate their fair values due to the short-term maturities of these liabilities.

7.	**RISK CONTRIBUTION INCOME**		
	Risk contribution income	137,214,832	132,567,381
	Risk contribution income per statement of comprehensive income	**137,214,832**	**132,567,381**

8.	**RISK CLAIMS INCURRED**		
	Current year claims per registered rules	121,999,665	109,478,530
	Movement in outstanding risk claims provision	6,848,765	2,877,914
	Under/(over) provision in respect of prior year (Note 5)	1,248,765	(122,086)
	Balance at the end of the year	5,600,000	3,000,000
		128,848,430	112,356,444
	Less: discount received on claims	(113,235)	(21,424)
	Risk claims incurred	**128,735,195**	**112,335,020**

		2018 R	2017 R
9.	**MANAGED CARE: MANAGEMENT SERVICES FEES**		
	Disease management	1,084,917	1,013,508
	Hospital pre-authorisation	1,050,978	981,803
	Network management	915,599	855,334
	Drug utilisation management	339,013	316,699
		3,390,507	**3,167,344**
10.	**OTHER OPERATING EXPENSES**		
	Actuarial consulting fees	388,047	340,811
	Association fees	37,018	35,022
	Audit fees	218,115	214,600
	Bank charges	73,900	72,484
	Council for Medical Schemes fees	110,017	104,818
	Debt collecting fees	227	439
	Fidelity guarantee and professional indemnity insurance premiums	30,000	30,000
	Medical emergency call centre fees	12,435	11,627
	Marketing expenses	28,500	-
	Principal Officer fees	153,964	-
	Printing, postage and stationery	12,180	192
	Sundries	34,679	21,102
		1,099,082	**831,095**
11.	**NET IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES**		
	Insurance receivables		
	Members' and service providers' portions that are not recoverable	13,822	95,411
	Movement in provision	13,822	46,880
	Written off	-	48,531
		13,822	**95,411**
12.	**INVESTMENT INCOME**		
	Interest earned	193,960	446,371
	Interest on cash and cash equivalents	193,960	195,289
	Interest on held-to-maturity investments	-	251,082
	Income from investments	(162,669)	1,790,387
	Interest income	2,438,923	2,884,209
	Dividend income	1,731,439	1,858,435
	Realised losses	(1,827,899)	(1,823,375)
	Unrealised losses	(1,737,246)	-
	Investment manager fees	(767,886)	(1,128,882)
		31,291	**2,236,758**
13.	**SUNDRY EXPENSE**		
	Cancelled cheques	(15,701)	(7,353)
		(15,701)	**(7,353)**

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

2018	PLAN A	PLAN B
In-hospital costs covered	100% Scheme rate, subject to annual limit	100% Scheme rate, subject to annual limit
Chronic conditions	PMBs unlimited, subject to formulary for CDL conditions	PMBs unlimited, subject to formulary, non-PMB's limited and subject to monthly CDA
Primary care	100% Scheme rate, subject to annual limit	100% Scheme rate, subject to annual limit
Overall annual limit	R600,000 per family	R2,000,000 per family

	PLAN A R	PLAN B R	TOTAL R
Risk contribution income	**65,414,118**	**71,800,714**	**137,214,832**
Relevant healthcare expenditure	**(59,436,736)**	**(72,434,997)**	**(131,871,733)**
Net risk claims incurred	(57,482,352)	(71,252,843)	(128,735,195)
Third party claim recoveries	157,599	96,370	253,969
Managed care: management services fees	(2,111,983)	(1,278,524)	(3,390,507)
Gross healthcare results	**5,977,382**	**(634,283)**	**5,343,099**
Administration expenses	(4,924,072)	(2,986,489)	(7,910,561)
Other operating expenses	(684,902)	(414,180)	(1,099,082)
Net impairment losses on healthcare receivables	(8,738)	(5,084)	(13,822)
Net healthcare results	**359,670**	**(4,040,036)**	**(3,680,366)**
Other income	9,739	5,851	15,590
Net surplus/(deficit) for the year	**369,409**	**(4,034,185)**	**(3,664,776)**

14. SURPLUS FROM OPERATIONS PER BENEFIT OPTION

2017	PLAN A	PLAN B
In-hospital costs covered	100% Scheme rate, subject to annual limit	100% Scheme rate, subject to annual limit
Chronic conditions	PMBs unlimited, subject to formulary for CDL conditions	PMBs unlimited, subject to formulary, non-PMB's limited and subject to monthly CDA
Primary care	100% Scheme rate, subject to annual limit	100% Scheme rate, subject to annual limit
Overall annual limit	R580,000 per family	R1,908,000 per family

	PLAN A R	PLAN B R	TOTAL R
Risk contribution income	**61,426,448**	**71,140,933**	**132,567,381**
Relevant healthcare expenditure	**(54,159,012)**	**(61,058,037)**	**(115,217,049)**
Net risk claims incurred	(52,304,864)	(60,030,156)	(112,335,020)
Third party claim recoveries	130,836	154,479	285,315
Managed care: management services fees	(1,984,984)	(1,182,360)	(3,167,344)
Gross healthcare results	**7,267,436**	**10,082,896**	**17,350,332**
Administration expenses	(4,631,409)	(2,758,709)	(7,390,118)
Other operating expenses	(520,850)	(310,245)	(831,095)
Net impairment losses on healthcare receivables	(59,794)	(35,617)	(95,411)
Net healthcare results	**2,055,383**	**6,978,325**	**9,033,708**
Other income	1,397,175	832,230	2,229,405
Net surplus for the year	**3,452,558**	**7,810,555**	**11,263,113**

15. EVENTS AFTER THE REPORTING DATE

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

As part of the annual benefit design, the Trustees restructed the benefits of Plan A, and also renamed Plan A to TFG Health, and Plan B to TFG Health Plus.

16. RELATED PARTY TRANSACTIONS

Four trustees are appointed by the employer and four elected by the members of the Scheme.

Parties with significant influence over the Scheme:

Administrator and managed care organisation
Discovery Health (Pty) Ltd has significant influence over the Scheme as Discovery Health (Pty) Ltd participates in the Scheme's financial and operating policy decisions, but does not control the Scheme. Discovery Health (Pty) Ltd provides administration services. These transactions are done at arm's length.

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

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

Transactions with related parties

The following provides the total transaction amounts, which have been entered into with related parties for the relevant financial year.

Key management personnel (Board of Trustees and Principal Officer) and their close family members

	2018 R	2017 R
Statement of comprehensive income		
Risk contributions received	490,692	635,274
Risk claims incurred	829,331	671,265
Principal Officer's fees	153,964	-

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

Transaction	Nature of transactions and terms and conditions thereof
Risk contributions received	This constitutes the risk contributions paid by the related parties as members of the Scheme, in their individual capacity. All risk contributions were on the same terms as those applicable to other members.
Risk claims incurred	This constitutes amounts claimed by the related parties, in their individual capacity as members of the Scheme. All risk claims were paid out in terms of the rules of the Scheme, as applicable to other members.

16. RELATED PARTY TRANSACTIONS (continued)

Transactions with entities that have significant influence over the Scheme

	2018 R	2017 R
Discovery Health (Pty) Ltd - Administrator		
Statement of comprehensive income		
Administration fees paid	7,910,561	7,390,118
Medical emergency call centre fees (Note 10)	12,435	11,627
Discovery Health (Pty) Ltd - managed care organisation		
Statement of comprehensive income		
Managed care fees paid (Note 9)	3,390,507	3,167,344
Statement of financial position		
Balance due to Discovery Health (Pty) Ltd at year end (Note 6)	961,480	980,117

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

Administration and managed care management service agreements

The administration and managed care agreements are entered into in terms of the Rules of the Scheme and in accordance with instructions given by the Board of Trustees. The agreement is automatically renewed each year, unless notification of termination is received or following the cancellation of the Administrator's accreditation or the issue of a lawful directive to this effect by the Council for Medical Schemes in terms of the Act. The Scheme and the Administrator are entitled to terminate the agreement by giving notice in writing of not less than 90 days and not more than 180 days. Outstanding balances bear no interest and are due within 7 days. Annual administration fee increases are negotiated by the Board of Trustees in accordance with the relevant terms of these agreements.

17. INSURANCE RISK MANAGEMENT REPORT

Nature and extent of risks arising from insurance contracts

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

Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Scheme mitigates covered members and their dependants against the risk of loss arising as a result of the occurrence of a health event (i.e. an event relating to the health of the Scheme's beneficiary). As such, the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim.

The Board of Trustees has developed and approved a documented policy for the acceptance and management of insurance risk to which the scheme is exposed. Reference has also been made to the requirements of the Medical Schemes Act in compiling the insurance risk-management policy. The policy is reviewed annually and the benefit options provided to members are structured to fall within the acceptable insurance risk levels specified. The Board of Trustees also determines the policy for entering into alternative risk transfer arrangements and/or commercial reinsurance contracts, where appropriate. The annual business plan is structured around the insurance risk-management policy.

The Scheme manages its insurance risk through benefit limits and sub-limits, application of clinical protocols, approval procedures for transactions that exceed set limits, pricing guidelines, pre-authorisation and case management, service provider profiling, and the regular monitoring of emerging issues.

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio.

Factors that aggravate insurance risk include changes in membership distribution and major unanticipated demographic movements, adverse experience regarding the cost of prescribed minimum benefits and unusually adverse experience due to seasonal patterns.

Concentration of insurance risk

The following table summarises the concentration of insurance risk, with reference to the number of beneficiaries per option, per age group.

Age grouping (in years)	2018		2017	
	PLAN A	PLAN B	PLAN A	PLAN B
< 26	1,471	868	1,460	816
26 – 35	938	191	989	195
36 – 50	1,122	775	1,075	746
51 - 64	289	446	270	431
> 65	133	342	122	345
Total	**3,953**	**2,622**	**3,916**	**2,533**

17. INSURANCE RISK MANAGEMENT REPORT (continued)

Claims incurred for 2018 service year

Age grouping (in years)	Hospital R	Out of hospital R	Chronic R	Total R
< 26	15,644,862	9,674,264	483,407	25,802,533
26 – 35	10,168,437	8,192,369	768,755	19,129,561
36 – 50	16,321,874	15,191,292	2,278,711	33,791,877
51 - 64	10,041,912	9,180,975	1,407,327	20,630,214
> 65	15,544,915	6,328,361	1,696,048	23,569,324
Total	**67,722,000**	**48,567,261**	**6,634,248**	**122,923,509**

Claims incurred for 2017 service year

Age grouping (in years)	Hospital R	Out of hospital R	Chronic R	Total R
< 26	14,976,874	8,686,907	373,087	24,036,868
26 – 35	8,343,106	7,107,726	643,642	16,094,474
36 – 50	13,910,812	12,803,186	1,781,990	28,495,988
51 - 64	9,501,389	8,337,288	1,422,808	19,261,485
> 65	15,805,107	5,791,171	1,519,023	23,115,301
Total	**62,537,288**	**42,726,278**	**5,740,550**	**111,004,116**

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 for those claims outstanding that are not yet reported at that date.

Outstanding risk claims provision

There are some sources of uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for risk claims made under insurance contracts.

Process used to determine the assumptions

Refer to note 5.

Changes in assumptions and sensitivities to changes in key variables

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

Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable may be required in the future.

An analysis of the sensitivities around various scenarios for the general medical insurance business provides an indication of the adequacy of the Scheme's estimation process. The Scheme believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

The impact on the liability and reported income caused by changes in relevant risk variables:

	Increase in liability	Increase in liability 2018 R	Increase in liability 2017 R
In-hospital claims incurred	1% increase in claims costs	677,220	625,373
Chronic claims incurred	1% increase in claims costs	66,342	57,406
Out-of-hospital risk claims incurred	1% increase in claims costs	485,673	427,263

18. FINANCIAL RISK MANAGEMENT REPORT

Overview

The Scheme is exposed to financial risk through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Scheme's financial performance.

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

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

The Audit Committee has been established by the Board of Trustees to assist in the implementation and monitoring of these risk management processes.

Credit risk

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

The Scheme's principal financial assets exposed to credit risk include cash and cash equivalents, fair value through profit or loss investments and trade and other receivables. The Scheme's credit risk is primarily attributable to its insurance and other receivables.

Insurance and other receivables
Trade and other receivables comprises insurance receivables and loans and receivables. The main components of insurance receivables are in respect of:
- Receivables for contributions due from members; and
- Receivables for amounts recoverable from service providers and members in respect of claims debt.

The Scheme manages credit risk by:
- Actively pursuing all contributions not received after 3 days of becoming due, as required by S26(7) of the Act;
- Monthly reconciliations between the Administrator and the Employer are discussed for possible suspensions of memberships;
- Ageing and pursuing arrear accounts on a monthly basis.

The Scheme establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Details of the process to estimate the impairment provision are included in note 1.6.

Investments
Investment transactions are limited to high credit quality financial institutions.

Annexure B of the Regulations to the Act prescribes the credit limits per institution, which reduces the individual risk per institution. The utilisation of these credit limits are regularly monitored.

18. FINANCIAL RISK MANAGEMENT REPORT (continued)

Cash and cash equivalents

The Scheme has no significant concentration of credit risk. Cash transactions are limited to financial institutions with a high credit rating. The Scheme has a policy of limiting the amount of credit exposure to any one financial institution.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Notes	Carrying amount 2018 R	2017 R
Fair value through profit or loss investments	2	126,419,862	-
Available-for-sale investments		-	128,869,428
Trade and other receivables	3	493,690	234,725
Insurance receivables		337,753	100,116
Loans and receivables		155,937	134,609
Cash and equivalents	4	37,842,354	36,706,086
		164,755,905	**165,810,239**

Trade and other receivables

The main components of insurance receivables are contribution receivables and member and service provider claims receivables.

Contribution receivables are collected by means of cash payments or debit orders.

The maximum credit exposure to claims receivables was:

Recoveries from members and suppliers	108,619	89,485
	108,619	**89,485**

18. FINANCIAL RISK MANAGEMENT REPORT (continued)

Impairment losses

The ageing of insurance receivables at year end was:

	Gross 2018 R	Impairment 2018 R	Gross 2017 R	Impairment 2017 R
Not past due	208,166	-	26,012	-
Past due 3 - 30 days	97,859	-	37,138	-
Past due 31 - 60 days	31,728	-	13,837	-
Past due 61 days +	188,541	188,541	197,848	174,719
Total	**526,294**	**188,541**	**274,835**	**174,719**

The movement in the impairment allowance, for each class of insurance asset, during the year was as follows:

	Trade and other receivables			
	Insurance receivables		*Loans and receivables*	Total
	Contribution debtors R	Member and service provider claims debtors R	*R*	R
Balance as at 1 January 2017	-	**127,839**	-	**127,839**
Amounts utilised during the year	-	(48,531)	-	**(48,531)**
Increase in provision for impairment	-	95,411	-	**95,411**
Balance as at 31 December 2017	-	**174,719**	-	**174,719**
Balance as at 1 January 2018	-	**174,719**	-	**174,719**
Amounts utilised during the year	-	-	-	-
Increase in provision for impairment	-	13,822	-	**13,822**
Balance as at 31 December 2018	-	**188,541**	-	**188,541**

Cash and cash equivalents

The table below shows the exposure limit and balance of cash or deposits held at five major counterparties at year end.

Counterparty	2018		2017	
	Exposure limit	Balance	Exposure limit	Balance
	R	R	R	R
1	57,491,776	41,799,456	55,544,846	13,117,380
2	57,491,776	8,095,898	55,544,846	14,499,432
3	57,491,776	6,005,128	55,544,846	13,983,900
4	57,491,776	1,485,605	55,544,846	7,207,635
5	57,491,776	5,978,371	55,544,846	17,288,146

No exposure limits were exceeded during the reporting period and the Trustees do not expect any losses from non-performance of these counterparties.

18. FINANCIAL RISK MANAGEMENT REPORT (continued)

Credit quality of financial assets and insurance receivables

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

	2018 R	2017 R
Insurance receivables		
Counterparties without external credit rating:		
Contribution debtors	229,134	10,631
Recoveries from members and suppliers	297,160	264,204

Contribution debtors
On analysing the credit quality of contribution debtors, the Scheme collected 99% of these amounts in January 2019. This indicates a high credit quality relating to these debtors.

Active member claim debtors
These debtors are members of the Scheme and therefore are expected to have similar credit quality to the contribution debtors. This does not imply that all amounts were collected in January.

Provider claim debtors
These debtors are the healthcare providers of the Scheme. The amounts due to the Scheme are offset against future payments to be made to these providers.

Cash and cash equivalents		
Counterparties with external credit ratings:		
Baa3 (Moody's)	63,364,458	66,096,493

18. FINANCIAL RISK MANAGEMENT REPORT (continued)

Liquidity risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The availability of funding through liquid cash positions with various institutions ensures that the Scheme has the ability to fund day-to-day operations. With exception of the matter raised in note 20, the Scheme has complied with the requirements regarding the nature and categories of assets as prescribed by Section 35 and Regulation 30 of the Act.

A maturity analysis for financial liabilities, excluding insurance liabilities is provided below:

As at 31 December 2018	Less than 1 month R	Between 1 and 3 months R	Between 3 months and 1 year R
Outstanding risk claims provision (Note 5)	3,069,289	646,514	1,884,197
Trade and other payables (Note 6)	1,275,688	-	-

As at 31 December 2017	Less than 1 month R	Between 1 and 3 months R	Between 3 months and 1 year R
Outstanding claims provision (Note 5)	1,644,262	346,347	1,009,391
Trade and other payables (Note 6)	1,233,423	-	-

The contractual cash flows above equate the carrying amount of the assets and liabilities above.

Market risk

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

Currency risk
All of the Scheme's benefits are Rand-denominated and therefore the Scheme does not have significant currency risk.

Price risk
The Scheme is exposed to equity security price risk because of investments held by the Scheme. The Scheme is not exposed to commodity risk. To manage its price risk arising from investments in equity securities, the Scheme diversifies its portfolio. Diversification of the portfolio is done by the asset manager through the investment held in a collective investment scheme through Allan Gray Life Limited.

18. FINANCIAL RISK MANAGEMENT REPORT (continued)

Interest rate risk

The Scheme is exposed to interest rate risk as it places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate investments within the Scheme's investment portfolio.

The Scheme's insurance liabilities are settled within one year and the Scheme does not discount insurance liabilities. Consequently, insurance liabilities do not expose the Scheme to interest rate risk.

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

As at 31 December 2018	Up to 1 month R	1 - 3 months R	3 - 12 months R	Total R
Cash and cash equivalents	37,842,354	-	-	37,842,354
Total	**37,842,354**	-	-	**37,842,354**

As at 31 December 2017	Up to 1 month R	1 - 3 months R	3 - 12 months R	Total R
Cash and cash equivalents	36,706,086	-	-	36,706,086
Total	**36,706,086**	-	-	**36,706,086**

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

	2018 %	2017 %
Cash and cash equivalents	6.09%	6.63%

Sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) accumulated funds and surplus or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2017.

	Surplus or deficit		Accumulated funds	
	100bp Increase R	100bp Decrease R	100bp Increase R	100bp Decrease R
31 December 2018				
Cash and cash equivalents	378,424	(378,424)	378,424	(378,424)
Sensitivity (net)	**378,424**	**(378,424)**	**378,424**	**(378,424)**
31 December 2017				
Cash and cash equivalents	367,061	(367,061)	367,061	(367,061)
Sensitivity (net)	**367,061**	**(367,061)**	**367,061**	**(367,061)**

18. FINANCIAL RISK MANAGEMENT REPORT (continued)

Legal risk
Legal risk is the risk that the Scheme will be exposed to in respect of contractual obligations which have not been provided for. At 31 December 2018 the Scheme did not consider there to be any significant concentration of legal risk that had not been provided for.

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

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

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

	2018 R	2017 R
Total members' funds per statement of financial position	156,566,143	160,230,919
Less: cumulative unrealised net gains on remeasurement to fair value of investments	(16,401,821)	(18,139,067)
Accumulated funds per Regulation 29	**140,164,322**	**142,091,852**
Gross risk contributions	**137,214,832**	**132,567,381**
Solvency margin **= Accumulated funds/annualised gross contribution income x 100%**	**102.15%**	**107.18%**

The required solvency has been maintained throughout the year.

18. FINANCIAL RISK MANAGEMENT REPORT (continued)

Fair value estimation

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

Continuous monitoring takes place to ensure that appropriate assets are held where the Scheme's liabilities are dependent upon the performance of investments and that a suitable match of assets exists for all liabilities.

Breakdown of investments

The assets of the portfolio must be invested in accordance with Annexure B of the Regulations to the Act.

The investments for the purposes of the financial statements comprise of fair value through profit or loss investments and cash and cash equivalents.

Fair value through profit or loss investments
Fair value through profit or loss investments comprise the following:

	2018 R	2017 R
Collective investment schemes	126,419,862	-
	126,419,862	**-**

Available-for-sale investments
Fair value through profit or loss investments comprise the following:

	2018 R	2017 R
Collective investment schemes	-	128,869,428
	-	**128,869,428**

The asset managers invest the Scheme's monies in a reputable fund which promise returns to the Scheme. The Scheme view this fund as an unconsolidated structured entity. The Scheme monitors the performance of the fund closely to ensure the Scheme earns high returns without unnecessary exposure to risk.

The Scheme invested in an equity collective investment scheme through Allan Gray Life Limited, Sanlam Ltd and Prescient Ltd which at year-end amounted to 77% (2017: 78%) of the Scheme's assets. The objective with this investment is to maximise capital growth over a longer term.

Cash and cash equivalents
Cash and cash equivalents are made up of the following year end balances:

	2018 R	2017 R
Current accounts	2,077,908	1,707,537
Money market	35,764,446	34,998,549
Total	**37,842,354**	**36,706,086**

18. FINANCIAL RISK MANAGEMENT REPORT (continued)

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

	Financial liabilities at amortised cost	Loans and receivables	Insurance receivables and payables	Fair value through profit or loss investments	Total carrying amount
	R	R	R	R	R
For the year ended 31 December 2018					
Fair value through profit or loss investments	-	-	-	126,419,862	**126,419,862**
Cash and cash equivalents	-	37,842,354	-	-	**37,842,354**
Trade and other receivables	-	155,937	337,753	-	**493,690**
Trade and other payables	(1,275,688)	-	(1,314,075)	-	**(2,589,763)**
	(1,275,688)	37,998,291	(976,322)	126,419,862	**162,166,143**
For the year ended 31 December 2017					
Available-for-sale investments	-	-	-	128,869,428	**128,869,428**
Cash and cash equivalents	-	36,706,086	-	-	**36,706,086**
Trade and other receivables	-	134,609	100,116	-	**234,725**
Trade and other payables	(1,233,423)	-	(1,345,897)	-	**(2,579,320)**
	(1,233,423)	36,840,695	(1,245,781)	128,869,428	**163,230,919**

19. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Scheme makes estimates and assumptions concerning the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

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

Reported claims not yet paid
Judgements are required in determining the final cash flows associated with discounts received from arrangements with hospitals. The underlying assumptions are reviewed on a quarterly basis.

Impairment of assets
The critical estimates and judgements relating to the impairment of assets are set out under note 1.6.

Valuation of financial instruments
The Scheme measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

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

Unconsolidated investment structures
The Scheme has involvement with an investment fund in which it invests but it does not consolidate. The investment fund meets the definition of a structured entity because:

- the voting rights in the fund is not dominant rights in deciding who controls it because they relate to administrative tasks only;
- each fund's activities are restricted by prospectus; and
- the fund has narrow and well-defined objectives to provide investment opportunities.

The unconsolidated investment structure is disclosed in note 18.

20. NON-COMPLIANCE MATTERS

20.1 Contributions not received within three days of it becoming due

In terms of Section 26(7) of the Act, all contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due.

There were a small number of instances, during the year, where the Scheme received contributions after three days of becoming due, however, there are no contracts in place agreeing to this arrangement.

Procedures are in place regarding the collection of these contributions.

20.2 Investment in participating employer and medical administrators

In terms of Section 35(8) of the Act, a medical scheme is prohibited from investing any of its assets in an employer who participates in that scheme or any medical scheme administrators.

At 31 December 2018 the Scheme indirectly held shares in The Foschini Group Ltd, MMI Holdings Ltd, Liberty Holdings Ltd, Discovery Ltd and Sanlam Limited to the value of R150,963 (2017: R0); R694,008 (2017: R800,028); R74,484 (2017: R54,740); R0 (2017: R16,732) and R339,703 (2017: R421,500) respectively.

Funds in this specific portfolio are structured at the sole discretion of the asset manager in a manner that maximizes returns. Therefore the Scheme does not make inputs into the structuring of the portfolio. The Scheme has received exemption from this section of the Act.

20.3 Limitation of assets - equity exposure

At 31 December 2018, the Scheme indirectly held shares amounting to 40.35% (2017: 46.93%) of the minimum aggregate of the fair value of liabilities and the minimum accumulated funds to be maintained by a medical scheme, which exceeded the 40% limitation imposed by category 4(a) of Annexure B to the Regulations of the Act.

The Scheme has issued a certified statement with regard to Regulation 30(3A) of the Medical Schemes Act 191 of 1998 prepared by a qualified person to the Council for Medical Schemes, notifying them of the Scheme's intention to invest excess assets in more equity, taking the Scheme's healthy solvency ratio into account.

20.4 Sustainability of benefit options

In terms of S33(2)(b) of the Medical Schemes Act 131 of 1998, as amended, each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound.

At 31 December 2018, the Scheme's Plan B option did not comply with S33(2)(b) of the Medical Schemes Act 131 of 1998, as the option recorded a deficit of R4,034,185.

Option B experienced claims in excess of expectations and a few high cost claims added to the claims experienced caused the option to record a deficit for the year.

The Trustees made changes to the benefit design and contributions for the new benefit year, and the expectation is that the option will return to a surplus position.

21. COMMITMENTS AND OTHER CONTINGENT LIABILITIES

The Scheme does not have any commitments or contingent liabilities outstanding at 31 December 2018.