PG GROUP MEDICAL SCHEME

REGISTRATION NUMBER: 1186

ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2016

PG GROUP MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2016

The reports and statements set out below comprise the Board of Trustees report and annual financial statements presented to members:

PG GROUP MEDICAL SCHEME

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

DESCRIPTION OF THE MEDICAL SCHEME

The PG Group Medical Scheme ("the Scheme") is a not for profit restricted membership medical scheme, registered in terms of the South African Medical Schemes Act 131 of 1998, as amended ("the Act").

The Scheme provides benefits to its members in a two-tier benefit structure, namely common benefits and medical savings benefits. The Scheme has only one benefit option available to members.

BOARD OF TRUSTEES IN OFFICE DURING THE YEAR UNDER REVIEW

M Carew	(Chairman) resigned on 30 April 2016
P Edge	(Chairman) effective 1 May 2016
D Koster	
A Patterson	
B Page	
W Ntshangase	Appointed 1 May 2016
B Twele	
H Cloete	(Alternate trustee)
J de Smidt	(Alternate trustee)

PRINCIPAL OFFICER

L Longley
18 Skeen Boulevard
Bedfordview
Johannesburg
2007

PO Box 2329
Bedfordview
Johannesburg
2008

REGISTERED OFFICE AND POSTAL ADDRESS OF THE SCHEME

Street Address	**Postal Address**
1 - 3 Canegate Road	PO Box 2338
La Lucia Ridge	Durban
4019	4000

ADMINISTRATOR

MMI Health (Pty) Ltd (Previously known as Momentum Medical Scheme Administrators (Pty) Ltd), a wholly-owned subsidiary of the MMI Group Ltd

1 - 3 Canegate Road	PO Box 2338
La Lucia Ridge	Durban
4019	4000

INVESTMENT MANAGERS

Allan Gray Life Limited
Beach Road
V & A Waterfront
Cape Town
8081

Stanlib Collective Investments Limited
17 Melrose Boulevard
Melrose Arch
2196

ACTUARIES

Towers Watson South Africa (Pty) Ltd
44 Melrose Boulevard
Melrose Arch
2196

AUDITORS

Deloitte & Touche
2 Pencarrow Crescent
Pencarrow Park
La Lucia Ridge Office Estate
4051

INVESTMENT STRATEGY OF THE MEDICAL SCHEME

The Scheme's investment objectives are to maximise the return on its investments on a long-term basis at minimal risk. The investment strategy complies with the constraints imposed by legislation.

The Scheme's investments are managed by the Board of Trustees, with the following objectives as the basis for investment decisions :

- the scheme remains liquid;
- investments are placed at minimum risk and the best possible return; and
- investments made are in compliance with the Regulations of the Act.

The Board of Trustees continued to invest excess funds in line with the requirements of the Act.

Allan Gray Life Limited managed R59 515 747 of the Scheme's funds as at 31 December 2016 (2015: R60 561 365) in terms of the mandate provided by the Board of Trustees. The balance of the Scheme's funds are invested on an ad hoc basis as determined by the Trustees.

RISK TRANSFER ARRANGEMENTS

For the year under review, the Scheme continued with the risk transfer arrangements with Dental Information Systems (Pty) Ltd (Denis), Preferred Provider Negotiators (Pty) Ltd (PPN) and Netcare 911 (Pty) Ltd.

Denis provides full management of the dental benefits to include authorising dental procedures as well as the payment of dental claims.

PPN provides full management of the optical benefit and the payment of claims.

Netcare 911 provides emergency rescue and ambulance services to members of the Scheme.

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

ACCUMULATED FUNDS

Movements in the accumulated funds are set out in the statement of changes in accumulated funds in the annual financial statements. There have been no unusual movements that the Board of Trustees believe should be brought to the attention of the members. The solvency ratio at 31 December 2016 was 79.4% (2015: 84.1%).

REVIEW OF THE YEAR'S ACTIVITIES

The Scheme recorded a net healthcare deficit of R6.7 million (2015: deficit of R5.9 million). After net investment income of R6.0 million a net deficit is recorded amounting to R1.1 million (2015: net deficit of R0.8 million).

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

SOLVENCY RATIO

The solvency ratio is calculated on the following basis:

	2016 R'000	2015 R'000
Total members' funds per statement of financial position	58 112	59 224
Less: Cumulative unrealised net gains on investments	-5 345	-7 453
Accumulated funds per Regulation 29	52 766	51 771
Gross contributions	66 445	61 539
Solvency ratio	79.4%	84.1%

(Accumulated funds - Cumulative unrealised gains)/Gross annual contribution income x 100)

BOARD OF TRUSTEES, SUB-COMMITTEES AND MEETING ATTENDANCES

The following schedule sets out the composition of the Board of Trustees and sub-committees, and their respective meeting attendances. None of the Trustees are remunerated for their participation in the Scheme.

	Board Meetings		Audit Committee Meetings	
	A	B	A	B
Trustees				
M Carew	1	1	-	-
P Edge*(Chairperson)	4	4	3	3
D Koster*	4	4	3	3
B Page*	4	4	3	3
A Patterson	4	2	-	-
W Tshangase	3	2	-	-
B Twele	3	2	-	-
Alternate Trustees				
H Cloete	0	0	-	-
J de Smidt	3	3	-	-
Audit Committee members				
T Rochussen (Chairperson of audit committee) #	1	1	3	3
G Scott #	2	2	0	0
L Massel	-	-	3	2
E Luyt	-	-	3	2
Principal officer				
L Longley	4	4	3	3

A - total possible number of meetings that could have been attended
B - actual number of meetings attended
* - also member of the audit committee
# - attends Board meetings by invitation

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

OPERATIONAL STATISTICS

	2016	2015
Number of members at the end of the accounting period	1 388	1 366
Number of beneficiaries at the end of the accounting period	2 943	2 929
Average number of members for the accounting period	1 360	1 358
Average number of beneficiaries for the accounting period	2 877	2 895
Average risk contribution per beneficiary per month (pbpm)	R 1 480	R 1 330
Pensioner ratio (beneficiaries age > 65)	9.55%	9.63%
Average age per beneficiary	33.00	32.47
Relevant healthcare expenditure per average beneficiary	R 1 576	R 1 408
Non healthcare expenditure per average beneficiary	R 98	R 92
Non healthcare expenditure as % of risk contributions	6.63%	6.89%
Average accumulated funds per member at the end of the accounting period	R 41 867	R 43 356
Dependants per member at the end of the accounting period	1.12	1.14
Return on investments as a % of investments	13.08%	10.99%
Relevant healthcare expenditure as a percentage of risk contributions	106.45%	105.86%

OUTSTANDING CLAIMS

Movements in the outstanding claims provision are set out in Note 7 to the annual financial statements. There have been no unusual movements that the Trustees believe should be brought to the attention of the members.

AUDIT COMMITTEE

An Audit Committee is constituted in accordance with the provisions of the Act. The committee is mandated by the Board of Trustees by means of a written terms of reference as to its membership, authority and duties. The committee consists of seven members of which three are members of the Board of Trustees. The majority of the members, including the Chairman, are not officers of the Medical Scheme or its third party administrator.

In accordance with the provisions of the Medical Schemes Act of South Africa, as amended, 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 internal and external auditors formally report to the committee on critical findings arising from audit activities.

The committee met on three occasions during the course of the year, as follows:

11 May 2016;
17 August 2016; and
9 November 2016.

AUDIT COMMITTEE (continued)

The Chairperson of the Board of Trustees, the Principal Officer, the financial manager of the administrator and the external auditors attend all audit committee meetings by invitation and have unrestricted access to the Chairman of the audit committee. Internal auditors also attend by invitation when necessary.

SUBSEQUENT EVENTS

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

NON-COMPLIANCE MATTERS

The Trustees are of the opinion that there are no deviations from the Act except those listed below.

1. Self-supporting options

Nature and impact
In terms of Section 33(2) benefit options shall be self-supporting in terms of membership and financial performance. The Scheme recorded a net deficit for the year of R1 112 454 (2015: deficit of R839 396). However the Scheme still maintained a solvency ratio of 79.4% which is higher than the required 25%.

Causes of failure
The Scheme is exposed to fluctuations in its claims experience and for the current year, had both a mix of high cost cases and a higher volume of claims.

Corrective action

The Scheme will continue to work with its actuarial consultants to ensure that the Scheme remains financially sound and self-supporting. The scheme is committed to rectify the situation through benefit design.

2. Investment in administrators

Nature and impact
In terms of the Medical Schemes Act and specifically Regulation 35(8)(c), a medical scheme shall not invest any of its assets in the business of any administrator. During the year the Scheme had pooled investments with exposure to medical scheme administrators.

Causes of failure
The Scheme's investments in pooled investment vehicles allow investment managers the discretion to invest in a combination of shares and bonds that will best achieve their stipulated benchmark.

Corrective action
The Scheme has made application to the Council for Medical Schemes and received an exemption from this section of the Medical Schemes Act.

3. Payment of claims within 30 days

Nature and impact

In terms of section 59(2) of the Act a member or provider claim should be settled within 30 days of submission. Instances were noted where settlements took more than 30 days. This represents only 0.09% of claims that are not paid within the prescribed time.

Causes of failure

Delays can occur when accounts are referred for clinical audit or other investigations. These are however the exceptions, and claims are generally paid within the prescribed time.

Corrective action

The administrator is aware of the requirements and complies as far as possible. It is however an inherent part of the industry that a limited number of problematic claims may exceed the payment requirement of 30 days.

4. Outstanding contributions

Nature and impact

In terms of Section 26(7) of the Act all contributions should be received within 3 days of becoming due. Although majority of the contributions are received timeously, members who are individual payers sometimes pay after payment is due. This represents only 0.23% of contributions that are received after they become due.

Causes of failure

Contribution reconciliations typically take more that 3 days to be resolved, and instances of non-compliance might occur. This is common in the industry and is not viewed as material.

Corrective action

On-going follow up with affected parties has occurred. The Scheme has strict credit control policies to minimise the risk of recoverability.

5. PMB Claims not paid in full or rejected or paid from members' savings

Nature and impact

Regulation 8(1) of the Medical Schemes Act No 131 of 1998 states that: Subject to the provisions of this regulation, any benefit option that is offered by a medical scheme must pay in full, without co-payment or the use of deductibles, the diagnosis, treatment and care costs of the prescribed minimum benefit conditions. Regulation 10(6) of the Medical Schemes Act No 131 of 1998 states that Schemes cannot pay for prescribed minimum benefits (PMBs) from a member's medical savings account.

Causes of failure

The administration system has been set up to settle all PMB claims as required by the Scheme. However, we also acknowledge that identifying a claim as a PMB is a complex process given the lack of a workable industry coding system. Internal audit identified these potential exceptions based purely on the ICD-10 code. The "PMB Claims Settled from Savings" and "PMB Claims Rejected or Shortpaid" reports recommended in the previous review have been implemented and are sent to Fund Management for review and consideration in accordance with Scheme protocols.

Corrective action

Claims Management will continue to send the identified exception reports to Fund Management, who will alert the Scheme of the potential PMB claims. Following analysis and clarification, Fund Management will execute the instructions as mandated by the Scheme to ensure correct payment as required.

GENERAL

In general, the Scheme had a sound year with no incidents of litigation or other negative matters occurring during the year of review.

The Trustees were briefed on all relevant aspects of the terms of reference of corporate governance during the course of the year.

The Chairperson of the Board of Trustees would like to thank the Trustees and the members of the Audit Committee for the positive and meaningful contributions during the year.

PG GROUP MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2016

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

The Trustees are responsible for the preparation, integrity and fair presentation of the annual financial statements of PG Group Medical Scheme. The financial statements presented on pages 15 to 35 have been prepared in accordance with International Financial Reporting Standards, the Medical Schemes Act of South Africa and include amounts based on judgements and estimates made by management.

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

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

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

PG Group Medical Scheme operates in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing the business are being controlled.

The going concern basis has been adopted in preparing the annual financial statements. The Trustees have no reason to believe that the Scheme will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These annual financial statements support the viability of the Scheme.

The Scheme's external auditors, Deloitte & Touche, are responsible for auditing the financial statements in terms of International Standards on Auditing and the Medical Schemes Act of South Africa and their audit report is presented on pages 10-14.

The annual financial statements as set out on pages 15-35 were approved by the Board of Trustees on 19 April 2017 and are signed on its behalf by:

P Edge
Chairman

W Ntshangase
Trustee

L Longley
Principal Officer

PG GROUP MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2016

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

The PG Group Medical Scheme is committed to the principles and practices of fairness, openness, integrity and accountability in all dealings with its stakeholders. The member Trustees are proposed and elected by the members of the Scheme, and the employer Trustees are proposed and elected by the employer group of the Scheme.

BOARD OF TRUSTEES

The Trustees meet regularly and monitor the performance of the Scheme and the administrators. 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, may seek independent professional advice at the expense of the Scheme.

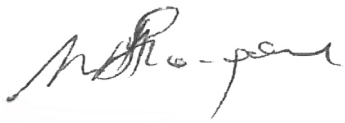
INTERNAL CONTROL

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

A formal internal audit function exists with regular reporting to the Audit Committee. The internal audit function moved from Metropolitan Health Internal Audit to KPMG Internal Audit in November 2015. The administrators of the Scheme have documented and tested disaster recovery procedures and the Board is satisfied that the procedures are in place and tested.

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

P Edge
Chairman



W Ntshangase
Trustee

L Longley
Principal Officer

19 April 2017

Deloitte.

PO Box 243
Durban 4000
South Africa

Deloitte & Touche
Registered Auditors
Audit - KZN
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PG GROUP MEDICAL SCHEME

Report on audit of the Financial Statements

Opinion

We have audited the financial statements of PG Group Medical Scheme ("the Scheme"), set out on pages 15 to 35, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, the statement of changes in members' funds and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matter

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

National Executive: *LL Bam Chief Executive Officer *TMM Jordan Deputy Chief Executive Officer *MJ Jarvis Chief Operating Officer
*GM Pinnock Audit *N Sing Risk Advisory *NB Kader Tax TP Pillay Consulting S Gwala BPaaS *K Black Clients & Industries
*JK Mazzocco Talent & Transformation *MJ Comber Reputation & Risk *TJ Brown Chairman of the Board
Regional Leader: *R Redfearn

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

B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

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

Key Audit Matter	How the matter was addressed in the audit
Outstanding Claims Provision	
As disclosed in note 7, the outstanding claims provision amounted to R 2 789 825 (2015: R 2 640 488) and constitutes 5.3% (2015: 5.6%) of annual claims incurred. The balance represents a provision for future claims to be paid by the scheme which were incurred by members before year end. The Trustees' assessment of the outstanding claims provision process uses complex assumptions and reliance on past trends based on historical month of payment data. This is impacted by the expected volatility of overall health conditions of the Scheme's members. Due to the various assumptions and complexity involved in determining the provision, it has been noted as a key audit matter.	We have tested the design and implementation of the key controls within the outstanding claims provision process. We performed tests of detail on actual claims incurred that were paid subsequent to year end and as close as possible to audit completion date. We performed a retrospective review of the prior year (2015) provision to actual claims development in 2016 in order to identify patterns of over or under provision. We have also considered the consistency of the approach with the prior year. We assessed the reasonableness of the provision by calculating an independent estimate based on historical claims data and trends. We have challenged the Trustees' key assumptions over future claims to be paid by the Scheme and the calculation methodology therein. Furthermore, the underlying data used to calculate the provision inputs were tested by comparing them to external data sources and historical performance. Based on the audit procedures performed, we are satisfied with the Trustees' assumptions applied and the measurement of the provision as at 31 December 2016. Furthermore, the accounting treatment and related disclosures were in accordance with the underlying accounting standards.

Other Information

The Scheme's Trustees are responsible for the other information. The other information comprises the Report of the Board of Trustees, Statement of responsibility by the Board of Trustees and Statement of corporate governance by the Board of Trustees, as required by the Act which we obtained prior to the date of this Auditors' report. The other information does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the Scheme's Trustees for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

We communicate with the 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 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

As required by the Council for Medical Schemes, we report that material instances of non-compliance with the requirements of the Medical Schemes Act of South Africa as amended have come to our attention during the course of the audit. These have been fully disclosed in note 24 to the financial statements.

Deloitte & Touche

DELOITTE & TOUCHE
Registered Auditors

Per: M Luthuli CA (SA), RA
Partner
25 April 2017

PG GROUP MEDICAL SCHEME

STATEMENT OF FINANCIAL POSITION
at 31 December 2016

	Notes	2016 R	2015 R
ASSETS			
Current assets		91 170 192	91 474 977
Trade and other receivables	2	2 386 075	3 803 604
Investments held at fair value through profit or loss	3	59 515 747	60 561 365
Cash and cash equivalents	4	1 172 110	1 311 584
Personal medical savings account trust funds	4.1	28 096 260	25 798 424
Total assets		91 170 192	91 474 977
FUNDS AND LIABILITIES			
Members' funds		58 111 515	59 223 969
Current liabilities		33 058 677	32 251 008
Savings plan liability	5	27 967 979	25 469 904
Trade and other payables	6	2 300 873	4 140 616
Outstanding claims provision	7	2 789 825	2 640 488
Total funds and liabilities		91 170 192	91 474 977

PG GROUP MEDICAL SCHEME

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Notes	2016 R	2015 R
Risk contribution income	8	51 112 115	46 194 357
Relevant healthcare expenditure		(54 409 630)	(48 900 490)
Net claims incurred	9	(52 903 251)	(47 381 837)
Risk claims incurred		(53 952 852)	(47 392 852)
Third party claim recoveries		1 049 601	11 015
Managed care: management services	11	(950 297)	(900 519)
Net expense on risk transfer arrangements	10	(556 082)	(618 134)
Risk transfer arrangement expenses		(4 466 682)	(4 640 075)
Claim recoveries from risk transfer arrangements		3 910 600	4 021 941
Gross healthcare result		(3 297 515)	(2 706 133)
Administration expenses	12	(3 420 245)	(3 240 024)
Net impairment gains on healthcare receivables	13	32 426	58 499
Net healthcare result		(6 685 334)	(5 887 658)
Other income		7 936 356	6 799 959
Investment income	14	3 827 928	3 285 799
Fair value adjustments	15	2 210 592	1 998 473
Interest earned on PMSA trust funds	14	1 897 836	1 515 687
Other expenditure			
Investment management fees	16	(473 894)	(236 424)
Interest paid on PMSA trust funds	17	(1 889 582)	(1 515 276)
Net loss for the year		(1 112 454)	(839 399)
Other comprehensive income		-	-
Total comprehensive loss for the year		(1 112 454)	(839 399)
Solvency ratio		**79.4%**	**84.1%**

PG GROUP MEDICAL SCHEME

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

	Accumulated funds R
Balance as at 1 January 2015	60 063 368
Total loss for the year	(839 399)
Balance as at 31 December 2015	59 223 969
Total loss for the year	(1 112 454)
Balance as at 31 December 2016	58 111 515

PG GROUP MEDICAL SCHEME

STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	Notes	2016 R	2015 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash outflows from operations before working capital changes	18	(2 209 707)	(4 694 277)
Working capital changes			
- Decrease in trade and other receivables		1 417 529	230 806
- Increase in savings plan liability		2 498 075	2 668 583
- Decrease in trade and other payables		(1 839 743)	(945 774)
CASH UTILISED IN OPERATIONS		(133 846)	(2 740 662)
Investment income	14	3 827 928	3 285 799
Investment management fees	16	(473 894)	(236 424)
NET CASH GENERATED FROM OPERATING ACTIVITIES		3 220 188	308 713
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	3	(1 061 826)	(2 387 125)
Transfer of savings liability		(2 297 836)	(2 385 687)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(139 474)	(4 464 099)
Cash and cash equivalents at beginning of the year		1 311 584	5 775 683
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	4	1 172 110	1 311 584

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. PRINCIPAL ACCOUNTING POLICIES

The annual financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS). The following are the principal accounting policies used by the Scheme, which are consistent with those of the previous year.

1.1 Basis of preparation

The annual financial statements are prepared on the historical cost convention, except for investments held at fair value through profit and loss, available for sale financial instruments and liabilities arising from the liability adequacy test, which are carried at fair value.

1.2 Financial instruments

Financial assets and liabilities are recognised on the Scheme's statement of financial position when it becomes a party to the contractual provisions of the instrument.

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

Impairment
Impairments of financial instruments are recognised through the statement of comprehensive income in the year in which the impairment arose. Where financial instruments are classified as held at fair value through the statement of comprehensive income, any impairment will form part of the fair-value adjustment recognised in the statement of comprehensive income.

Investments
All purchases and sales of investments are recognised on the trade date, which is the date that the Scheme commits to purchase or sell the asset. Cost of purchases includes transaction costs. Financial assets held at fair value through the statement of comprehensive income are subsequently carried at fair value. The fair value is calculated with reference to the latest market value. Realised and unrealised gains and losses arising from changes in the fair value of investments held at fair value through profit and loss are included in the statement of comprehensive income in the period in which they arise.

Trade and other receivables
Trade and other receivables originated by the Scheme are stated at amortised cost less an appropriate allowance for estimated irrecoverable amounts. This is recognised through the statement of comprehensive income when there is objective evidence that the asset is impaired.

Cash and cash equivalents
Cash and cash equivalents are measured at fair value and comprise current bank accounts, deposits held on call with banks, other short-term liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value and bank overdrafts.

Financial liabilities
Financial liabilities are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Offset
Where a 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.

1.3 Personal medical savings account liability

The personal medical savings account (PMSA) liability represents funds held on behalf of members by the Scheme. The savings plan facility assists members in managing cash flows for costs to be borne by them during the year, meeting service provider expenses in excess of the Scheme's approved benefits and meeting or self funding member co-payments for provider services rendered.

PMSA contributions are credited and withdrawals charged on a cash basis. Unexpended savings at the year-end are carried forward to meet future expenses for which the members are responsible. Balances standing to the credit of members are only refundable in terms of regulation 10 of the Medical Schemes Act 131 of 1998, as amended.

In accordance with the rules of the Scheme, the bad debt risk of PMSA advances is underwritten by the Scheme.

1.3 **Personal medical savings account liability (continued)**

The PMSA trust monies are ring-fenced and held in a separate investment account in accordance with the provisions of Circular 38 of 2011, and all interest earned on these monies is distributed to the members .

1.4 **Provisions**

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

The outstanding claims provision represents the Trustees and Principal Officer's estimate of the ultimate cost of settling all healthcare benefits costs that have occurred before the statement of financial position date, but have not been reported to the Scheme by that date. The outstanding claims provision is reduced by the estimated recoveries from members for co-payments and savings plan accounts payments. Consideration is given to taking into account the liability adequacy test. This test considers current estimates of all contractual cash flows, and of related cash flows.

1.5 **Medical insurance contracts and liability adequacy test**

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

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

1.6 **Contribution income**

Contributions are received monthly. Net contributions represent gross contributions after deduction of savings plan contributions. The earned portion of net contributions received is recognised as revenue on the accrual basis. Net contributions are earned from the date of attachment of risk, over the indemnity period on a straight-line basis.

1.7 **Managed care: management services**

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

1.8 **Claims**

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

Net claims incurred comprise:

- claims submitted and accrued for services rendered during the year, net of recoveries from members for co-payments, and savings plan accounts;
- claims for services rendered during the previous year not included in the outstanding claims provision for that year, net of recoveries from members for co-payments, and savings plan accounts;
- movement in the provision for outstanding claims; and
- claims settled in terms of risk transfer arrangements.

Claims incurred relating to risk transfer arrangements are calculated on the basis of actual utilisation applied to an inflation adjusted National Health Reference Pricing.

1.9 **Risk transfer arrangements**

Risk transfer premiums are recognised as an expense over the indemnity period on a straight-line basis. Only contracts that give rise to a significant transfer of insurance risk are accounted for as risk transfer arrangements. Amounts recoverable under such contracts are recognised in the same year as the related claim. Anticipated recoveries under risk transfer arrangements are disclosed separately as assets and are assessed in a manner similar to the assessment of the outstanding claims provision and claims reported not yet paid.

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

1.10 **Impairment gains and losses**

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

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income in the period in which the adjustment is made to the estimate of the carrying amount.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in members' funds and there is objective evidence that the asset is impaired, the loss that had been recognised directly in members' funds is recognised in the statement of comprehensive income even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the statement of comprehensive income is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income.

Calculation of recoverable amount

The recoverable amount of the Scheme's trade and other receivables balances carried at amortised cost are calculated as the present value of estimated future cash flows, discounted at the effective interest rate. Receivables with a short duration are not discounted.

Reversals of impairment

An impairment loss in respect of a trade and other receivables balance carried at amortised cost is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of amortisation if no impairment loss had been recognised.

1.11 **Investment income**

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Scheme.

1.13 **IFRS standards and interpretations not yet effective**

The following new accounting standards and interpretations are in issue, but not yet effective:

Standard	Subject	Effective date
IAS 7	Statement of Cash Flows	01-Jan-17
IFRS 9	Financial instruments: Recognition and measurement.	01-Jan-18
IFRS 15	Revenue from contracts with customers	01-Jan-18
IFRS 4	Insurance contracts	01-Jan-18
IFRS 16	Leases	01-Jan-19

The Scheme is in the process of evaluating the effects of these new standards and interpretations but they are not expected to have a significant impact on the Scheme’s results and disclosures.

		2016 R	2015 R
2	**TRADE AND OTHER RECEIVABLES**		
	Contributions outstanding	2 121 627	3 551 044
	Recoveries due from members	76 137	20 657
	Due from suppliers	44 276	51 508
	Profit share due on risk transfer arrangements	219 601	219 601
	Savings plan account advances (refer note 5)	-	4 300
		2 461 641	3 847 110
	Less: Allowance for impairment losses	(85 550)	(59 855)
		2 376 091	3 787 255
	Accrued interest	9 984	8 849
	Other	-	7 500
		2 386 075	3 803 604

The movement in the allowance for impairment during the year was as follows:

2016	Contribution debt	Member and supplier debt	Savings account advances	Total
Balance as at 1 January	-	59 855	-	59 855
Amount recognised in the statement of comprehensive income for the period (Note 13)	-	25 695	-	25 695
Additional provisions made in the period	-	78 478	-	78 478
Unused amounts reversed during the period	-	(52 783)	-	(52 783)
Balance as at 31 December	-	85 550	-	85 550

2015	Contribution debt	Member and supplier debt	Savings account advances	Total
Balance as at 1 January	-	41 710	-	41 710
Amount recognised in the statement of comprehensive income for the period (Note 13)	-	18 145	-	18 145
Additional provisions made in the period	-	50 358	-	50 358
Unused amounts reversed during the period	-	(32 213)	-	(32 213)
Balance as at 31 December	-	59 855	-	59 855

At year-end the carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets.

3 INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS

	2016 R	2015 R
Fair value at the beginning of the year	60 561 365	57 138 021
Additions	1 061 826	2 387 125
Unrealised (losses)/profit on revaluation of investments	(2 107 444)	1 036 219
Fair value at the end of the year	59 515 747	60 561 365
The investments included above represent investments in:		
Cash and deposits	20 870 178	23 921 257
Debentures	12 423 900	6 629 776
Equity funds	26 221 669	30 010 332
Fair value at the end of the year	59 515 747	60 561 365

A register of investments is available for inspection at the registered office of the Scheme. The investment managers actively trade the underlying portfolios with reference to the market values of the underlying investments. The Scheme's investments are classified as held at fair value through profit and loss.

The overall weighted average effective return on the above investments was 10.3% for the year ended 31 December 2016 (2015: 9.21%).

4 CASH AND CASH EQUIVALENTS

Money market instruments	53 996	76 469
Current accounts	1 118 114	1 235 115
	1 172 110	1 311 584

The weighted average effective interest rate on money market instruments was 7.86% (2015: 6.61%).
The average effective interest rate on the current accounts was 6.56% (2015: 5.02%).

4.1 PERSONAL MEDICAL SAVINGS ACCOUNT TRUST FUNDS

Money market instruments	28 096 260	25 798 424
	28 096 260	25 798 424

The weighted average effective interest rate on money market instruments was 7.86% (2015: 6.61%).

At year-end the carrying amounts of cash and cash equivalents and the personal medical savings accounts trust funds approximate their fair values due to the short-term maturities of these assets.

		2016 R	2015 R
5	**PERSONAL MEDICAL SAVINGS ACCOUNT TRUST MONIES**		
	Balance of Personal Medical Savings Accounts (PMSA) trust liability at beginning of the year	25 469 904	22 801 321
	Less: Advances on savings plan accounts	(4 300)	(4 086)
	Net balance of PMSA trust liability at the beginning of the year	25 465 604	22 797 235
	Add :		
	Savings plan account contributions received	15 337 211	15 348 260
	- for the current year (refer note 8)	15 332 911	15 344 174
	- allocated to settle prior year advances	4 300	4 086
	Interest and other income earned on trust monies invested	1 889 582	1 515 276
	Less:		
	Repayments on death or resignation	(2 609 512)	(1 794 374)
	Claims paid on behalf of members (refer note 9)	(12 114 906)	(12 400 793)
		27 967 979	25 465 604
	Advances on savings plan accounts included in trade and other receivables (refer note 2)	-	4 300
	Balance due to members on PMSA monies held in trust at end of year	27 967 979	25 469 904

It is estimated that claims to be paid out of members' savings accounts in respect of claims incurred in 2016 but not yet recorded will amount to R270,217(2015: R303,782) (refer note 7).

The savings plan liability represents funds held on behalf of members by the Scheme. The savings plan facility assists members in managing the cash flows for costs to be borne by them during the year, meeting provider service expenses not covered in the Scheme's approved benefits and meeting or self funding member co-payments for provider services rendered.

Unexpended savings at the year-end are carried forward to meet future expenses for which the members are responsible. In terms of the Act, as amended, balances standing to the credit of members are only refundable in terms of Regulation 10 of the Regulations to the Act, as amended. In accordance with the rules of the Scheme, the bad debt risk of savings plans advances is underwritten by the Scheme.

Investment of PMSA trust monies managed by the Scheme on behalf of its members:

	2016 R	2015 R
The investment comprises:		
- Money market instruments	28 096 260	25 798 424
Total PMSA trust monies invested	28 096 260	25 798 424

The savings investment account is aligned with the savings account liability after each month end in the event that the liability is higher than the investment. Differences at year-end is of a timing nature.

6 TRADE AND OTHER PAYABLES		
Unallocated receipts from members	1 410 307	3 545 055
Credit balances in trade and other receivables	2 644	4 380
Amounts payable to members	20 549	99 527
Amounts payable to suppliers	265 174	46 561
Other payables	602 199	445 093
	2 300 873	4 140 616

At the year end the carrying value of trade and other payables approximate their fair values due to the short-term maturities of these liabilities.

7 OUTSTANDING CLAIMS PROVISION		
Provision for outstanding claims	2 789 825	2 640 488
Provision arising from liability adequacy test	-	-
	2 789 825	2 640 488

	2016 R	2015 R
7 OUTSTANDING CLAIMS PROVISION (continued)		
Analysis of movements in outstanding claims		
Balance at beginning of year	2 640 488	2 409 772
Analysed as follows		
Estimated gross claims	2 944 270	2 645 163
Less: Estimated recoveries from savings plan accounts	(303 782)	(235 391)
Payments in respect of prior year	(2 624 417)	(2 323 072)
Overprovision (refer note 9)	16 071	86 700
Increase in provision for the current year	2 773 754	2 553 788
Balance at end of year	2 789 825	2 640 488
Analysed as follows		
Estimated gross claims	3 060 042	2 944 270
Less: Estimated recoveries from savings plan accounts	(270 217)	(303 782)
Balance at end of year	2 789 825	2 640 488

Basis for determination of the outstanding claims provision

The outstanding claims provision is a provision for the estimated cost of healthcare benefits that have occurred before the statement of financial position date but have not been reported to the Scheme by that date. The provision is determined as accurately as possible based on a number of assumptions which are outlined below.

Process used to determine the assumptions

The process used to determine the assumptions is intended to result in realistic 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 on a regular basis. 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.

The actual method or blend of methods used varies by category of claims and observed historical claims development. To the extent that the historical claims development method is used, we assume that the historical pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development or recording of claims paid and incurred (such as changes in claims submission mechanisms);
- changes in composition of members and their dependants;
- changes to legislation;
- variations in the nature and average cost incurred per claim; and
- random fluctuations.

Notified claims are assessed with due regard to the claim circumstances, category, anticipated development, expected seasonal fluctuations, and information available from managed care: management services. The provisions are best estimates based on the most recent information available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by category of claims (i.e. hospital (major medical benefit), chronic, and day-to-day) due to differences in the underlying insurance contract, claim complexity, the volume of claims, the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the claim "run-off factors" for the most recent benefit years (split by discipline). The run-off factor is the expected percentage of claims paid out of total claims incurred in a specific month. This factor is then used to project the remainder of the outstanding claims relating to the specified service month. A "seasonality factor" is further incorporated into the calculation, also based on past claims experience. These assumptions have been used for assessing the outstanding claims provisions for the 2015 and 2016 benefit years.

7 OUTSTANDING CLAIMS PROVISION (continued)

Changes in assumptions

The table below outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. It should be noted that this is a deterministic approach with no correlations between the key variables.

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

An analysis of sensitivity around various scenarios for the general medical insurance business provides an indication of the adequacy of the 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. Consequently, if for example the estimates of the unreceived portion of claims costs for the year was inaccurate, the impact on the net deficit of the Scheme would be as follows:

Impact on reported losses due to changes in key variables

	Change in liability 2016 R	Change in liability 2015 R
3% Change in estimates	83 695	79 215
4% Change in estimates	111 593	105 620
5% Change in estimates	139 491	132 024

This analysis has been prepared for a change in a specified variable with other assumptions remaining constant.

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

	2016 R	2015 R
Outstanding claims provision	2 789 825	2 640 488
Portion of outstanding claims provision paid to date (March)	(2 155 382)	(2 390 809)
Residual estimate of claims incurred but not paid	634 443	249 679

8 RISK CONTRIBUTION INCOME

Gross contributions	66 445 026	61 538 531
Less: Savings contributions (refer note 5)	(15 332 911)	(15 344 174)
Risk contribution income	51 112 115	46 194 357

9 RISK CLAIMS INCURRED

Current year claims paid	58 333 803	53 206 901
Movement in outstanding claims provision	2 773 754	2 553 788
- Overprovision in prior year (refer note 7)	(16 071)	(86 700)
- Adjustment for current year	2 789 825	2 640 488
Less:		
- Claims paid from savings accounts (refer note 5)	(12 114 906)	(12 400 793)
Claims incurred in respect of risk transfer arrangements		
Current year claims	3 910 600	4 021 941
	52 903 251	47 381 837

10 NET EXPENSE ON RISK TRANSFER ARRANGEMENTS

	2016 R	2015 R
Dental Information Systems (Pty) Ltd	(373 930)	(448 896)
Claim recoveries from risk transfer arrangements	2 589 114	2 661 620
Risk transfer arrangement expenses	(2 963 044)	(3 110 516)
Preferred Provider Negotiators (Pty) Ltd	(192 228)	(115 571)
Claim recoveries from risk transfer arrangements	1 052 584	1 147 780
Risk transfer arrangement expenses	(1 244 812)	(1 263 351)
Netcare 911 (Pty) Ltd	10 076	(53 667)
Claim recoveries from risk transfer arrangements	268 902	212 541
Risk transfer arrangement expenses	(258 826)	(266 208)
	(556 082)	(618 134)

Dental Information Systems (Pty) Ltd (Denis) provides full management of the dental benefits to include authorising dental procedures as well as the payment of dental claims.

Preferred Provider Negotiators (Pty) Ltd (PPN) provides full management of the optical benefit and the payment of claims.

Netcare 911 (Pty) Ltd provides emergency rescue and ambulance services to members of the Scheme.

11 MANAGED CARE: MANAGEMENT SERVICES

MMI Health (Pty) Ltd	858 617	805 759
HIV management	37 830	43 810
Homecare	53 850	50 950
	950 297	900 519

12 ADMINISTRATION EXPENSES

Administrator's fees	3 004 586	2 820 073
Auditor's remuneration - current year	131 272	118 420
- audit fees - current year	132 000	119 500
- audit fees - over provision	(728)	(1 080)
Publication costs	9 029	8 379
Benefit management expenditure (international travel insurance)	70 124	65 204
Consultants fee	136 800	130 508
Board of Healthcare Funders (BHF) subscriptions	15 258	14 088
Registrar's levies	45 676	41 886
Fidelity insurance	7 500	36 336
Trustee training	-	5 130
	3 420 245	3 240 024

13 NET IMPAIRMENT GAINS ON HEALTHCARE RECEIVABLES

Outstanding member contributions	-	-
Members' and service providers' portions	(32 426)	(58 499)
Movement in provision	25 695	18 145
Written back	(58 121)	(83 049)
Written off	-	6 405
Advances from savings plan accounts	-	-
	(32 426)	(58 499)

	2016 R	2015 R
14 INVESTMENT INCOME		
Interest income	2 825 659	2 408 119
- Cash and cash equivalents	110 244	124 504
- Investments held at fair value through profit and loss	2 715 415	2 283 615
Dividend income	1 002 269	877 680
Investment income excluding PMSA interest earned	3 827 928	3 285 799
Interest received on PMSA trust funds	1 897 836	1 515 687
	5 725 764	4 801 486
15 FAIR VALUE ADJUSTMENTS		
Unrealised (loss)/profit on revaluation of investments	(2 107 444)	1 036 219
Realised gain on revaluation of investments	4 318 036	962 254
	2 210 592	1 998 473
16 INVESTMENT MANAGEMENT FEES		
Fees paid to investment managers	473 894	236 424
17 INTEREST PAID ON PERSONAL MEDICAL SAVINGS ACCOUNTS		
Interest earned on trust monies paid to members	1 889 582	1 515 276
18 CASH FLOWS FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES		
Reconciliation of deficit for the year to cash flows from operations before working capital changes		
Deficit for the year	(1 112 454)	(839 399)
Adjustments for:		
- Net investment income	(3 827 928)	(3 285 799)
- Investment management fees	473 894	236 424
- Increase in outstanding claims provision	149 337	230 716
- Unrealised loss/(gain) on revaluation of investments	2 107 444	(1 036 219)
Cash outflows from operations before working capital changes	(2 209 707)	(4 694 277)

19 RELATED PARTY TRANSACTIONS

Momentum Medical Scheme Administrators (Pty) Ltd, as third party administrator of the Scheme, is deemed a related party, and received market related administration fees as follows (refer notes 11 & 12):

Managed care fees	950 297	900 519
Administration fees	3 004 586	2 820 073
	3 954 883	3 720 592
Amount payable at year end	(320 575)	(298 632)

Contributions billed to, contributions received from, and claims paid in respect of the Trustees and Principal Officer of the Scheme during the year, were done so in accordance with the rules of the Scheme and the provisions of the Medical Schemes Act. Accordingly, all Trustees and the Principal Officer were treated in the same manner by the Scheme as would any member have been, at arms length.

Net contribution income received from the Trustees and Principal Officer for the year was R339,525 (2015: R327,000). Net claims paid were R223,606 (2015: R114,576). The Trustees and Principal Officer had positive savings balances of R391,673 (2015: R326,555).

20 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Scheme's accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

Net impairment losses - outstanding contributions that are not recoverable

A historical experience basis has been applied to the current contribution billings to determine a reasonable estimate of potential future reversals of premiums already billed. In addition, outstanding contribution debtors have been assessed on an individual basis for possible impairment, and specific impairment provisions raised where applicable.

Net impairment losses - members' and service providers' portions

Accounts receivable from off benefit members are impaired fully. Accounts receivable from on benefit (i.e. current) members are not impaired. Service providers with accounts outstanding longer than 60 days are fully impaired on a case by case basis.

Net impairment losses - advances from savings plan accounts

Advances from savings plan accounts for off benefit members are impaired where the account is outstanding longer than 60 days. There is no impairment of advances from savings plan accounts for on benefit members.

Provision for outstanding claims

The provision for outstanding claims is an estimate of the potential liability at statement of financial position date for claims that have been incurred by members but not yet received by the Scheme. The full details of the provision for outstanding claims are disclosed in note 7.

There are no key areas of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

21 INSURANCE RISK MANAGEMENT

Risk management objectives and policies for mitigating medical insurance risk

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

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

The Scheme uses several methods to assess and monitor medical 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 medical insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected.

Medical insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated.

Risk in terms of risk transfer arrangements

The Scheme cedes medical insurance risk to limit exposure to underwriting losses under various agreements that cover individual risks and defined blocks of risk, on a co-insurance, yearly renewable term. These risk transfer arrangements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Scheme's evaluation of the specific risk, subject in certain circumstances, to maximum limits based on characteristics of coverage. According to the terms of the capitation agreements, the suppliers provide certain minimum benefits to Scheme members on various benefit options, as and when required by the members. The Scheme does, however, remain liable to its members with respect to ceded medical insurance if any capitation provider fails to meet the obligations it assumes. When selecting a capitation provider the Scheme considers its stability from public rating information and from internal investigations.

21 INSURANCE RISK MANAGEMENT (continued)

The following table summarises the concentration of medical insurance risk on a beneficiary level, with reference to the net carrying amount of the 2016 medical insurance claims paid in the 2016 financial year, by age group and in relation to the type of risk covered or benefits provided.

2016 Age grouping (in years)	Medical specialist R	General Practitioners R	Hospitals R	Medicine R	Other R	Total R
< 26	282 782	32 791	672 140	15 695	34 611	1 038 020
26 - 35	2 593 250	156 460	4 466 823	331 501	317 904	7 865 938
36 - 50	3 834 192	228 545	5 820 814	911 811	971 412	11 766 774
51 - 65	3 872 058	152 523	5 417 459	1 583 702	1 355 117	12 380 859
> 65	4 058 924	205 081	6 982 125	1 555 490	1 252 740	14 054 359
Total amount	14 641 206	775 400	23 359 360	4 398 199	3 931 784	47 105 950

2015 Age grouping (in years)	Medical specialist R	General Practitioners R	Hospitals R	Medicine R	Other R	Total R
< 26	252 473	31 353	475 619	36 031	43 885	839 361
26 - 35	2 095 304	164 536	4 888 377	588 403	338 473	8 075 093
36 - 50	3 400 616	222 411	4 005 541	1 442 294	761 949	9 832 811
51 - 65	3 162 305	115 726	3 911 893	1 704 336	605 135	9 499 395
> 65	3 777 407	165 128	5 687 656	2 354 950	612 989	12 598 130
Total amount	12 688 105	699 154	18 969 086	6 126 014	2 362 431	40 844 790

Reconciliation of net claims to current year claims paid:	2016 R	2015 R
Total net claims as above	47 105 950	40 844 790
IBNR Provision	2 789 825	2 640 488
Over provision prior year	(16 071)	(86 700)
RAF claims recoveries and adjustments	(887 053)	(38 682)
Claims recoveries from risk transfer arrangements	3 910 600	4 021 941
Risk claims incurred (Note 9)	52 903 251	47 381 837

The Scheme's strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome. The strategy is set out in the annual business plan, which specifies the benefits to be provided, the preferred target market and demographic split thereof.

All the contracts are annual in nature and the Scheme has the right to change the terms and conditions of the contract at renewal. Management information including contribution income and claims ratios, target market and demographic split, is reviewed monthly. There is also a program that regularly reviews contractual premium and benefit data to ensure adherence to the Scheme's objectives.

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.

21 FINANCIAL RISK MANAGEMENT

Interest Rate Risk

Interest rate risk is the exposure that the Scheme has to changes in interest rates. This is not a significant risk to the Scheme as it holds no debt for the exception of the member's saving liability on which interest is paid. The main exposure to the Scheme would be a reduction in interest income on investments if interest was to decrease. Given the current economic climate in South Africa, this is highly unlikely. In order to reduce the impact of any potential interest rate changes, the Scheme holds a diversified portfolio of investments both long and short term.

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

	Up to 1 month R	1 - 3 months R	Total R
As at 31 December 2016			
Cash and cash equivalents	1 172 110	-	1 172 110
Investments held at fair value through profit and loss	-	33 294 077	33 294 077
PMSA trust funds	28 096 260	-	28 096 260
Total	29 268 370	33 294 077	62 562 447
As at 31 December 2015			
Cash and cash equivalents	1 311 584	-	1 311 584
Investments held at fair value through profit and loss	-	30 551 033	30 551 033
PMSA trust funds	25 798 424	-	25 798 424
Total	27 110 008	30 551 033	57 661 041

If interest rates changed by 1%, assuming all other variables remain constant, and the recent past is predictive of the future, the impact on return on investment and the resulting impact on the results of the Scheme is as follows:

	2016 R	**2015 R**
Change in investment income	625 624	576 610

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Scheme operates in South Africa and therefore its cash flows are denominated in South African Rand (ZAR). The Scheme is not directly exposed to currency risk in relation to investments as all are denominated in South African Rand, and the diversified investment strategy currently precludes any foreign investments.

Credit risk

The Scheme has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and members.The maximum exposure to credit risk at the reporting date without taking account of any collateral or other credit enhancements was R91,170,192 (2015: R91,474,977).

The Scheme's credit risk is primarily attributable to trade receivables. The amounts presented in the statement of financial position are net of allowances for possible impairment losses, estimated by the Scheme's management based on prior experience and the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

21 FINANCIAL RISK MANAGEMENT (continued)

	2016 R	2015 R
Trade and other receivables		
Fully performing	2 386 075	3 803 604
Past due but not impaired	-	-
Past due and impaired	85 550	59 855
	2 471 625	3 863 459
Allowance for impairment of trade and other receivables	(85 550)	(59 855)
Trade and other receivables (Note 2)	2 386 075	3 803 604

For detailed explanation of impairment procedures for the scheme, refer Note 20.

Equity Risk

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

Equities are reflected at market values, which are susceptible to fluctuations. The Scheme manages it's equity risk by employing the following procedures:

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

Should the South African equities market change by 2% (2015:2%), assuming all other variables remain constant, and the recent past is predictive of the future, the impact on the market value of the Scheme's investments would be as follows:

	2016 R	2015 R
Equity	508 189	422 411

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents by monitoring the availability of funding through liquid-holding cash positions with various financial institutions. This ensures that the Scheme has the ability to fund its day-to-day operations.

The table below analyses the assets and liabilities of the Scheme into relevant maturity groupings based on the remaining period at statement of financial position date to the contractual maturity date:

	Up to 1 month R	1 - 3 months R	3 - 12 months R	Total R
As at 31 December 2016				
Current assets	31 654 445	33 294 077	26 221 670	91 170 192
Trade and other receivables	2 386 075	-	-	2 386 075
Investments held at fair value through profit and loss	-	33 294 077	26 221 670	59 515 747
Cash and cash equivalents	1 172 110	-	-	1 172 110
PMSA trust funds	28 096 260	-	-	28 096 260
Current liabilities	3 083 893	1 575 025	28 399 759	33 058 677
Trade and other payables	2 300 873	-	-	2 300 873
Savings plan liability	62 361	140 302	27 765 316	27 967 979
Outstanding claims provision	720 659	1 434 723	634 443	2 789 825
Net positive liquidity	28 570 552	31 719 052	(2 178 089)	58 111 515

21 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

As at 31 December 2015

Current assets	30 913 612	30 551 033	30 010 332	91 474 977
Trade and other receivables	3 803 604	-	-	3 803 604
Investments held at fair value	-	30 551 033	30 010 332	60 561 365
Cash and cash equivalents	1 311 584	-	-	1 311 584
PMSA trust funds	25 798 424	-	-	25 798 424
Current liabilities	5 897 786	891 854	25 461 368	32 251 008
Trade and other payables	4 140 616	-	-	4 140 616
Savings plan liability	209 659	48 556	25 211 689	25 469 904
Outstanding claims provision	1 547 511	843 298	249 679	2 640 488
Net positive liquidity	25 015 826	29 659 179	4 548 964	59 223 969

Fair value estimation

The fair value of publicly traded financial instruments, is based on quoted market prices at the statement of financial position date.

	2016		2015	
	Carrying	Fair Value	Carrying	Fair Value
	R	R	R	R
Investments held at fair value through profit and loss	59 515 747	59 515 747	60 561 365	60 561 365
Cash and cash equivalents	1 172 110	1 172 110	1 311 584	1 311 584
PMSA trust funds	28 096 260	28 096 260	25 798 424	25 798 424
Trade and other receivables	2 386 075	2 386 075	3 803 604	3 803 604
Savings plan liability	27 967 979	27 967 979	25 469 904	25 469 904
Trade and other payables	2 300 873	2 300 873	4 140 616	4 140 616

At year-end the carrying amounts approximate their fair values due to the short-term maturities of these assets and liabilities.

Fair value of financial assets and liabilities by hierarchy level

The fair value of publicly traded financial instruments held as investments held at fair value through profit or loss, is based on quoted market prices at the statement of financial position date. Instruments classified as held at fair value through profit or loss in the statement of financial position are held at fair value. All financial assets held at fair value are level 1 in the fair value hierarchy.

	2016 R	2015 R
Financial Assets		
Level 1		
Investments held at fair value through profit or loss		
Cash and deposits	20 870 178	23 921 257
Debentures	12 423 900	6 629 776
Equity funds	26 221 669	30 010 332
	59 515 747	60 561 365

Capital adequacy risk

This represents the risk that there are insufficient reserves to provide for adverse variations on actual and future experience. The Scheme defines its capital as accumulated funds as detailed in the statement of changes in funds and reserves. The Scheme manages its capital to ensure that it will be able to continue as a going concern as well as meet the solvency ratio of 25%, as regulated by the Medical Schemes Act of 1998. The Scheme had R58.1 million (2015: R59.2 million) of accumulated funds at 31 December 2016, which translated to a solvency ratio of 79.4% (2015: 84.1%).

22 FIDELITY COVER

The Scheme participated in fidelity insurance and professional indemnity cover provided by Momentum Medical Scheme Administrators (Pty) Ltd, on behalf of client schemes it administered, amounting to R10 million (2015: R10million). The Scheme also participates in fidelity insurance and professional indemnity cover provided by Glenrand MIB, on behalf of the Scheme, amounting to R320 million (2015: R320 million).

23 CONTINGENT ASSETS

The Scheme has approximately R723 thousand (2015: R1.50 million) in recoveries outstanding from the Road Accident Fund (RAF) for claims paid on behalf of members. The general likelihood of recovery of these amounts is uncertain, and the Trustees have elected not to recognise a debtor on the statement of financial position as any future recoveries are highly contingent on a multitude of factors.

24 NON-COMPLIANCE MATTERS

The Trustees are of the opinion that there are no deviations from the Act except those listed below.

1. Self-supporting options

Nature and impact
In terms of Section 33(2) benefit options shall be self-supporting in terms of membership and financial performance. The Scheme recorded a net deficit for the year of R1 112 454 (2015: deficit of R839 396). However the Scheme still maintained a solvency ratio of 79.4% which is higher than the required 25%.

Causes of failure
The Scheme is exposed to fluctuations in its claims experience and for the current year, had both a mix of high cost cases and a higher volume of claims.

Corrective action

The Scheme will continue to work with its actuarial consultants to ensure that the Scheme remains financially sound and self-supporting. The scheme is committed to rectify the situation through benefit design.

2. Investment in administrators

Nature and impact
In terms of the Medical Schemes Act and specifically Regulation 35(8)(c), a medical scheme shall not invest any of its assets in the business of any administrator. During the year the Scheme had pooled investments with exposure to medical scheme administrators.

Causes of failure
The Scheme's investments in pooled investment vehicles allow investment managers the discretion to invest in a combination of shares and bonds that will best achieve their stipulated benchmark.

Corrective action
The Scheme has made application to the Council for Medical Schemes and received an exemption from this section of the Medical Schemes Act.

3. Payment of claims within 30 days

Nature and impact
In terms of section 59(2) of the Act a member or provider claim should be settled within 30 days of submission. Instances were noted during sample testing where settlements took more than 30 days. This represents only 0.09% of claims that are not paid within the prescribed time.

Causes of failure
Delays can occur when accounts are referred for clinical audit or other investigations. These are however the exceptions, and claims are generally paid within the prescribed time.

Corrective action
The administrator is aware of the requirements and complies as far as possible. It is however an inherent part of the industry that a limited number of problematic claims may exceed the payment requirement of 30 days.

4. Outstanding contributions

Nature and impact
In terms of Section 26(7) of the Act all contributions should be received within 3 days of becoming due. Although majority of the contributions are received timeously, members who are individual payers sometimes pay after payment is due. This represents only 0.23% of contributions that are received after they become due.

Causes of failure

Contribution reconciliations typically take more that 3 days to be resolved, and instances of non-compliance might occur. This is common in the industry and is not viewed as material.

Corrective action
On-going follow up with affected parties has occurred. The Scheme has strict credit control policies to minimise the risk of recoverability.

5. PMB Claims not paid in full or rejected or paid from members' savings

Nature and impact

Regulation 8(1) of the Medical Schemes Act No 131 of 1998 states that: Subject to the provisions of this regulation, any benefit option that is offered by a medical scheme must pay in full, without co-payment or the use of deductibles, the diagnosis, treatment and care costs of the prescribed minimum benefit conditions. Regulation 10(6) of the Medical Schemes Act No 131 of 1998 states that Schemes cannot pay for prescribed minimum benefits (PMBs) from a member's medical savings account.

Causes of failure

The administration system has been set up to settle all PMB claims as required by the Scheme. However, we also acknowledge that identifying a claim as a PMB is a complex process given the lack of a workable industry coding system. Internal audit identified these potential exceptions based purely on the ICD-10 code. The "PMB Claims Settled from Savings" and "PMB Claims Rejected or Shortpaid" reports recommended in the previous review have been implemented and are sent to Fund Management for review and consideration in accordance with Scheme protocols.

Corrective action

Claims Management will continue to send the identified exception reports to Fund Management, who will alert the Scheme of the potential PMB claims. Following analysis and clarification, Fund Management will execute the instructions as mandated by the Scheme to ensure correct payment as required.