LA HEALTH MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2012

LA HEALTH MEDICAL SCHEME
(Registration no. 1145)

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2012

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BOARD OF TRUSTEES	Mr GJ Beukman	Elected (Chairperson)
	Mr HA Deysel	Elected (Deputy Chairperson)
	Mr RC Barnard	Elected
	Mr A Bennett	Elected
	Mr R Bosman	Elected
	Mr DL Carstens	Appointed (End of term June 2012), Elected July 2012
	Mr R de Bruyn	Appointed (End of term June 2012), Elected July 2012
	Mr R Denge	Appointed (End of term June 2012), Elected July 2012
	Mr R Field	Elected
	Mr F Hoffman	Elected
	Mr SA Kaunda	Appointed (End of term June 2012), reappointed November 2012
	Mr A Lemmer	Elected
	Mr P Louwrens	Elected July 2012
	Mr ME Mattheus	Elected
	Mr MCT Schultz	Elected
	Ms I Seymour	Elected July 2012, resigned October 2012
	Ms L Sibiya	Appointed (End of term June 2012)
	Mr A Vorster	Elected July 2012

PRINCIPAL OFFICER	Mr AM de Koker
REGISTERED OFFICE	7th Floor East Tower Offices Century City Boulevard Canal Walk, Century City 7435
POSTAL ADDRESS	Postnet Suite 116 Private Bag X19 Milnerton 7435
AUDITOR Registered address of auditor	**KPMG Inc** 85 Empire Road Parktown Johannesburg 2193
ADMINISTRATOR Registered address of administrator	**Discovery Health (Pty) Ltd** 155 West Street SANDTON 2146

LA HEALTH MEDICAL SCHEME
(Registration no. 1145)

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2012

TRUSTEES' RESPONSIBILITY AND APPROVAL

The Trustees are responsible for the preparation and fair presentation of the annual financial statements of LA Health Medical Scheme, comprising the statement of financial position at 31 December 2012, 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 liability 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 annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the annual financial statements

The annual financial statements of LA Health Medical Scheme, as identified in the first paragraph, were approved by the Trustees on 11 April 2013 and are signed on their behalf by:

GJ BEUKMAN	**F HOFFMAN**	**AM DE KOKER**
CHAIRPERSON	TRUSTEE	PRINCIPAL OFFICER

LA HEALTH MEDICAL SCHEME
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ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2012

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

LA Health Medical Scheme (the Scheme) is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders. The Scheme is committed to good Corporate Governance and applies good governance principles. During the first part of the year there were ten member proposed and elected Trustees and five appointed Trustees. Effective 1 July 2012 there were 16 elected trustees.

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, 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 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 safeguard, verify and maintain accountability for its assets. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

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

GJ BEUKMAN	**F HOFFMAN**	**AM DE KOKER**
CHAIRPERSON	TRUSTEE	PRINCIPAL OFFICER

11 April 2013

LA HEALTH MEDICAL SCHEME
(Registration no. 1145)

REPORT OF THE AUDIT COMMITTEE

The Audit Committee hereby presents its report for the year ended 31 December 2012.

Audit Committee Members and attendees

The Audit Committee consists of the members listed below and meets at least once a quarter as per the approved terms of reference. During the financial year under review five meetings were held.

			Meetings attended
Mr J Davis	(Acting Chairperson from 1 July 2012)	Independent	5
Mr A Vorster	(Resigned as Chairperson 30 June 2012)	Independent	1
Mr A Vorster	(Changed effective 1 July 2012)	Trustee	3
Mr AJ Bennett		Trustee	5
Mr A Lemmer	(Resigned from committee 30 June 2012)	Trustee	2
Ms N Chowthee		Independent	5

Whilst properly constituted, there was a period during the year where there was a vacancy on the audit committee. Two meetings were held during this period.

The cost of the Audit Committee is depicted in the financial statements. Refer note 18 of the notes to the financial statements.

Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities as contained in the Medical Schemes Act of South Africa (the Act), and the Corporate Governance Guide to Audit Committees for Medical Schemes as issued by the South African Institute of Chartered Accountants.

The Audit Committee reports that it has, as far as possible, complied with the formal terms of reference/audit committee charter, as approved by the Board of Trustees, regulated its affairs in compliance with the charter and discharged its responsibilities as contained therein.

The effectiveness of internal control

The Audit Committee has received reports from various assurance providers on the effectiveness of the internal financial control environment and as such has not found any significant or material non-compliance with prescribed policies and procedures.

Further, the Audit Committee comments that management controls taken during the year of assessment, e.g. the maintaining of an internal audit activity by the Scheme's administrator, has enhanced the internal control structure.

Risk management

The Board of Trustees also appointed the Audit Committee as the Risk Committee of the Scheme. A risk register was compiled and is reviewed on a regular basis. These risks are monitored by this Committee.

Evaluation of financial statements

The Audit Committee has:

- Noted that the annual financial statements of the Scheme have been prepared in accordance with International Financial Reporting Standards (IFRS);
- Noted no changes in the accounting policies as adopted for LA Health Medical Scheme; and
- Reviewed and discussed with the Principal Officer and external auditors the audited annual financial statements.

REPORT OF THE AUDIT COMMITTEE (continued)

Governance

The Board of Trustees adopted the governance principles of the King Code and the King III Report. Further initiatives are currently being developed to achieve alignment with the code. E.g. Combined Assurance, Ethics Management & IT Governance.

Non-compliance matters

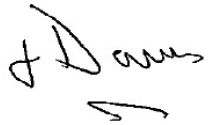
In terms of Section 33(2) of the Act, one of the five benefit options was not self-sustaining.

In terms of Section 26(7) of the Medical Schemes Act of South Africa, all contributions shall be paid directly to a medical Scheme not later than three days after payment thereof becoming due. There are instances where the Scheme received contributions after three days of becoming due.

The Committee takes note of the Board of Trustees' comments as contained in the Board of Trustees Report in this regard.

Annual financial statements

The Audit Committee concurs and accepts the conclusions of the external auditors on the annual financial statements and is of the opinion that the audited financial statements be accepted and read together with the report of the external auditor.



J DAVIS
CHAIRPERSON - AUDIT COMMITTEE

AM DE KOKER
PRINCIPAL OFFICER

11 April 2013

KPMG Inc
KPMG Crescent
85 Empire Road, Parktown, 2193
Private Bag 9, Parkview, 2122, South Africa

Telephone +27 (0)11 647 7111
Fax +27 (0)11 647 8000
Docex 472 Johannesburg

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF LA HEALTH MEDICAL SCHEME

Report on the financial statements
We have audited the annual financial statements of LA Health Medical Scheme (the Scheme), which comprise the statement of financial position at 31 December 2012, 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 includes a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 61.

Trustees' responsibility for the financial statements
The Scheme's Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Medical Schemes Act of South Africa, and 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.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the annual financial statements present fairly, in all material respects, the financial position of LA Health Medical Scheme at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Medical Schemes Act of South Africa.

Report on Other Legal and Regulatory Requirements
As required by the Council for Medical Schemes, we draw your attention to note 28 to the annual financial statements detailing instances of non-compliance with the Medical Schemes Act of South Africa.

KPMG Inc.

Per M Fouché
Chartered Accountant (SA)
Registered Auditor
Director
11 April 2013

LA HEALTH MEDICAL SCHEME
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STATEMENT OF FINANCIAL POSITION
at 31 December 2012

	Notes	2012 R	2011 R
ASSETS			
Non-current assets		144 345	506 636
Equipment	2	144 345	185 319
Loans to employees	4	-	321 317
Current assets		593 307 841	487 843 903
Investments held at fair value through profit or loss	3	-	1 985 059
Trade and other receivables	4	71 696 419	57 666 325
Cash and cash equivalents		521 611 422	428 192 519
Current, call and short term deposits	5.1	423 020 069	428 192 519
Medical savings account trust funds	5.2	98 591 353	-
Total assets		**593 452 186**	**488 350 539**
FUNDS AND LIABILITIES			
Members' funds		417 051 117	341 178 683
Accumulated funds		417 051 117	341 178 683
Non-current liability		3 154 000	2 522 000
Post retirement healthcare funding liability	9	3 154 000	2 522 000
Current liabilities		173 247 069	144 649 856
Outstanding risk claims provision	6	32 500 000	23 500 000
Medical savings account trust liability	7	106 776 976	91 131 049
Trade and other payables	8	33 970 093	30 018 807
Total funds and liabilities		**593 452 186**	**488 350 539**

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STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

	Notes	2012 R	2011 R
Risk contribution income	10	**1 190 025 616**	**978 976 733**
Relevant healthcare expenditure		**(962 225 640)**	**(795 278 509)**
Net claims incurred		(962 425 075)	(795 044 833)
Risk claims incurred	11	(965 038 201)	(796 349 442)
Third party claims recoveries		2 613 126	1 304 609
Net income/(expense) on risk transfer arrangements	14	199 435	(233 676)
Risk transfer arrangement fees/premiums paid		(7 018 154)	(6 530 328)
Recoveries from risk transfer arrangements		7 217 589	6 296 652
Gross healthcare results		**227 799 976**	**183 698 224**
Managed care: management services fees	12	(27 240 906)	(22 527 892)
Broker services fees	13	(29 022 147)	(22 515 035)
Administration fees		(101 685 690)	(84 191 225)
Sundry expenses	18	(12 497 231)	(9 628 120)
Net impairment losses on healthcare receivables	19	(2 452 082)	(2 165 511)
Net healthcare results		**54 901 920**	**42 670 441**
Other income		**25 076 938**	**22 119 985**
Investment income	15	24 939 134	21 695 337
Sundry income	16	137 804	424 648
Other expenditure		**(4 106 424)**	**-**
Interest paid on personal medical savings accounts	17	(4 106 424)	-
Net surplus for the year		**75 872 434**	**64 790 427**
Total comprehensive income for the year		**75 872 434**	**64 790 427**

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(Registration no. 1145)

STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2012

	2012 R Accumulated funds	2011 R Accumulated funds
Balance at 1 January	**341 178 683**	**276 388 257**
Total comprehensive income for the year		
Surplus for the year	75 872 434	64 790 427
Total comprehensive income	75 872 434	64 790 427
Balance at 31 December	**417 051 117**	**341 178 683**

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STATEMENT OF CASH FLOWS
for the year ended 31 December 2012

	Notes	2012 R	2011 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows from operations before working capital changes	20	55 727 369	42 774 743
Working capital changes			
• Increase in trade and other receivables		(14 030 094)	(9 191 232)
• Increase in personal medical savings account trust liability		15 645 927	9 842 204
• Increase in outstanding claims provision		9 000 000	4 300 000
• Increase in trade and other payables		3 951 286	9 187 351
Net cash flows from operating activities		**70 294 488**	**56 913 066**
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to equipment		(14 671)	(21 590)
Disposals of investments		2 087 120	1 354 393
Decrease in loans to employees		321 317	90 332
Interest income		24 830 559	21 904 777
Dividend income		6 514	57 142
Interest paid		(4 106 424)	-
Net cash flows from investing activities		**23 124 415**	**23 385 054**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**93 418 903**	**80 298 120**
Cash and cash equivalents at beginning of year		428 192 519	347 894 399
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	**521 611 422**	**428 192 519**

GENERAL INFORMATION

LA Health Medical 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 annual financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Medical Schemes Act of South Africa (the Act). The financial statements are prepared on the going concern principle using the historical cost basis except for investments at fair value through profit or loss and the personal medical savings account trust liability.

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 27).

These financial statements are presented in Rands, which is the Scheme's functional currency.

1.1 Basis of preparation (continued)

New standards, amendments and interpretations effective in 2012 and relevant to the Scheme
There were no new standards adopted in the 2012 financial year.

New standards, amendments and interpretations not yet effective in 2012 and relevant to the Scheme
The Scheme has not yet assessed the impact of these new standards and amendments.

Title	Effective date - financial year commencing on
IAS 1 - Presentation of Items of Other Comprehensive Income - The amendments require that an entity presents separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss, do not change the existing option to present profit or loss and other comprehensive income in two statements and change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRS's continue to apply in this regard. The amendments are to be applied retrospectively.	1 Jul 2012
Amendments to IAS 1 - Annual Improvements 2009 to 2011 - The amendments clarifies the minimum comparative information to be presented in the financial statements. As a minimum an entity must present, two statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss, two statements of cash flows and two statements of changes in equity, and related notes. The amendments clarify when there is a change in accounting policy, retrospective restatement or reclassification an entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements. However, it need not present the related notes to the opening statement of financial position as at the beginning or the preceding period.	1 Jan 2013
IAS 32 - Offsetting Financial Assets and Financial Liabilities - The amendments addresses inconsistencies in applying the offsetting criteria and clarify when an entity currently has a legally enforceable right to set off recognised amounts and when gross settlement is equivalent to net settlement. The amendment is to be applied retrospectively.	1 Jan 2014
IFRS 7 - Disclosure: Offsetting Financial Assets and Financial Liabilities - The objective of the common disclosure (with IAS32 amendment) is to help users of the financial statements to understand the actual and potential effect of netting arrangement on the entity's financial position. The amendment includes minimum disclosure requirements related to financial assets and financial liabilities that are to be offset in the statement of financial position or subject to enforceable master netting arrangements or similar agreements. The amendment is to be applied retrospectively.	1 Jan 2013
IFRS 9 - Financial Instruments - IFRS 9 (2009) retains but simplifies the mixed measurement model for financial assets and establishes two primary measurement categories, amortised cost and fair value. IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities. The new standard is applied prospectively.	1 Jan 2015
IFRS 13 - Fair Value Measurement - IFRS 13 introduces a single source of guidance on fair value measurement for both financial and non-financial assets and liabilities by defining fair value, establishing a framework for measuring fair value and setting out disclosures requirements for fair value measurements.	1 Jul 2013

1.2 Equipment

Equipment is reflected at historical cost less accumulated depreciation and impairments. Depreciation is charged on the straight-line basis over the estimated useful lives of the assets. The respective depreciation rates used are:

Office machines & equipment	20.00%
Office furniture & fittings	10.00%

Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Maintenance and repairs are expensed as incurred.

Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with its carrying amount. Surpluses and deficits on the disposal of equipment is recognised in profit or loss.

Depreciation methods, residual values and useful lives of equipment are reviewed annually at each reporting date.

1.3 Classification, recognition, presentation and derecognition of financial instruments

The Scheme recognises a financial instrument when, and only when, it becomes a party to the contractual provisions of the instrument. The Scheme has the following financial instrument categories: Loans and receivables, financial liabilities, held-to-maturity investments and investments at fair value through profit or loss. The Scheme has grouped its financial instruments into the following classes:

- Investments held at fair value through profit or loss;
- Held-to-maturity investments;
- Trade and other receivables;
- Cash and cash equivalents;
- Trade and other payables;
- Members' savings accounts; and
- Loans to employees.

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

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

1.3 Classification, recognition, presentation and derecognition of financial instruments (continued)

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

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

Where the Scheme neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Scheme determines whether it has retained control of the financial asset. In this case:
(i) If the Scheme has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; and
(ii) If the Scheme has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

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

1.4 Financial assets: Initial and subsequent measurement

Non-derivative financial instruments are recognised initially at fair value and instruments not at fair value through profit or loss include any directly attributable transaction costs.

Dividend income from investments held at fair value through profit or loss is recognised in profit or loss as part of investment income when the Scheme's right to receive payments is established.

Investments held at fair value through profit or loss
A financial asset is classified into the 'investments held at fair value through profit or loss' category at inception if acquired principally for the purpose of selling in the short-term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking. Investments held at fair value through profit or loss are measured at fair value and changes therein are recognised in profit or loss.

Financial assets are designated at fair value through profit or loss if the Scheme manages such investments and makes purchase and sale decisions based on their fair value in accordance with the scheme’s investment strategy.

Held-to-maturity investments
Held-to-maturity investments are recognised initially at fair value plus any directly attributable transaction costs. When the Scheme has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

1.4 Financial assets: Initial and subsequent measurement (continued)

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Scheme's loans and receivables comprise trade and other receivables, cash and cash equivalents and loans to employees.

Subsequently loans and receivables are measured at amortised cost using the effective interest method, less impairment. An impairment of trade receivables is established when there is objective evidence that the Scheme will not be able to collect all amounts due according to the original terms of the receivables. Receivables arising from healthcare insurance contracts with members are also classified in this category and are reviewed for impairment as part of the impairment review conducted per note 1.7.

Insurance receivables
Insurance receivables comprise contributions outstanding and recoveries from members and suppliers. Insurance receivables are recognised at cost less impairment losses. Impairment losses on insurance receivables are recognised and determined in a similar manner to impairment losses on financial assets carried at amortised cost (Note 1.7).

1.5 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.

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

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

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

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

1.5 Financial liabilities (continued)

Members Medical Savings Accounts trust liability (continued)
The members medical savings accounts are invested on behalf of members in call and fixed deposits with banks. These monies are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

1.6 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise:
- 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.

1.7 Impairment of financial assets

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

Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Scheme regarding the following loss events:
- Significant financial difficulty of service provider or member debtors;
- Breach of contract, such as non-payment of member contributions when due and if these remain unpaid for extended periods;
- Default or delinquency in payments due by service providers and other debtors;
- The disappearance of an active market for that financial asset due to financial difficulties;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from other groups of Scheme assets since the initial recognition of those assets, although the decrease cannot yet be attributed to the individual financial assets in the Scheme;
- Adverse changes in the payment status of members of the Scheme; or
- National or local economic conditions that correlate with non-payment of debtor contributions.

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

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

An allowance account is used when the carrying amount of impaired assets is not reduced directly. Such impairment losses are recognised in profit or loss. In other instances, the carrying value of the asset is reduced where the amounts are proved to be irrecoverable.

1.7 Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)
When a receivable is irrecoverable, it is written off against the related impairment in the allowance account. Such receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off, decrease the amount of the impairment in profit or loss.

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

Non-financial assets

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

Reversals of impairment
An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

1.8 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. The expected future cash flows are discounted at a rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of discount is recognised as finance cost.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Scheme from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost to terminate the contract and the expected net cost of continuing with the contract. Before a provision is established, the Scheme recognises any impairment loss on the assets associated with the contract. The Scheme currently has no onerous contracts.

1.9 Outstanding risk claims provision

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

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

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

1.10 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 25.

1.11 Risk contribution income

Gross contributions comprise of risk contributions and MSA contributions.

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

Risk contributions are shown before the deduction of broker service fees and other similar costs.

1.12 Risk claims

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 claims from members' savings accounts, 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 risk claims accruals;
- Risk claims incurred but not yet reported; and
- Risk claims settled in terms of risk transfer arrangements.

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

1.13 Risk transfer arrangements

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

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

Risk transfer claims and benefits reimbursed are presented in profit or loss and in the statement of financial position on a gross basis. Only contracts that give rise to a significant transfer of insurance risk are accounted for as a risk transfer arrangement. Amounts recoverable under such contracts are recognised in the same year as the related claim.

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

Amounts recoverable under risk transfer arrangements are assessed for impairment at each reporting date. These 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. The Scheme gathers objective evidence that a risk transfer arrangement asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in note 1.7.

1.14 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.

1.15 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.

1.16 Investment income

Investment income comprises interest income, dividends and fair value gains on financial assets at fair value through profit or loss.

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.

1.17 Interest paid on personal medical savings accounts

The interest paid on savings accounts is recognised in profit or loss using the effective interest method.

1.18 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.

1.19 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.

1.20 Allocation of income and expenditure to benefit options

The following items are directly allocated to benefit options:
- Risk contribution income;
- Risk claims incurred;
- Risk transfer arrangement fees;
- Administration fees;
- Managed care: management services; and
- Broker service fees.

The following item is directly allocated based on claims incurred per benefit option:
- Claims recoveries from third parties.

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

1.21 Employee benefits

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Scheme's net obligation in respect of post-retirement healthcare costs is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The unrecognised past service costs are recognised on a straight-line basis. The discount rate is the yield at the reporting date on bonds that have maturity dates approximating the terms of the Scheme's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Scheme, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Scheme if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Gains and losses

Actuarial gains and losses are recognised in profit or loss immediately.

Short-term benefits

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

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Scheme has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2. EQUIPMENT

	Office machines & equipment R	Office furniture & fittings R	Total R
Year ended 31 December 2012			
Cost			
At the beginning of the year	352 375	232 988	585 363
Additions	14 671	-	14 671
At the end of the year	**367 046**	**232 988**	**600 034**
Accumulated depreciation			
At the beginning of the year	(277 798)	(122 246)	(400 044)
Depreciation charges	(31 436)	(24 209)	(55 645)
At the end of the year	**(309 234)**	**(146 455)**	**(455 689)**
Carrying amount at the end of the year	**57 812**	**86 533**	**144 345**

	Office machines & equipment R	Office furniture & fittings R	Total R
Year ended 31 December 2011			
Cost			
At the beginning of the year	330 785	232 988	563 773
Additions	21 590	-	21 590
At the end of the year	**352 375**	**232 988**	**585 363**
Accumulated depreciation			
At the beginning of the year	(234 443)	(98 947)	(333 390)
Depreciation charges	(43 355)	(23 299)	(66 654)
At the end of the year	**(277 798)**	**(122 246)**	**(400 044)**
Carrying amount at the end of the year	**74 577**	**110 742**	**185 319**

2. EQUIPMENT (continued)

The carrying amounts of equipment can be reconciled as follows:

2012	**Office machines & equipment**	**Office furniture & fittings**	**Total**
	R	**R**	**R**
Net carrying value at beginning of the year	74 577	110 742	185 319
Additions	14 671	-	14 671
Depreciation	(31 436)	(24 209)	(55 645)
Net carrying value at end of year	**57 812**	**86 533**	**144 345**

2011	**Office machines & equipment**	**Office furniture & fittings**	**Total**
	R	**R**	**R**
Net carrying value at beginning of the year	96 342	134 041	230 383
Additions	21 590	-	21 590
Depreciation	(43 355)	(23 299)	(66 654)
Net carrying value at end of year	**74 577**	**110 742**	**185 319**

		2012 R	2011 R
3.	**INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS**		
	At the beginning of the year	1 985 059	2 141 035
	Gains/(losses) on revaluation of investments (Note 15)	102 061	(155 976)
	Disposals	(2 087 120)	-
	At end of year	**-**	**1 985 059**
	The investment included above represent investments in:		
	Listed equities	-	1 985 059
	Total investments held at fair value through profit or loss	**-**	**1 985 059**

The fair value of these listed equities are based on their market value at year end. A register of investments is available for inspection at the registered office of the Scheme. Listed equities were disposed of during 2012.

4.	**TRADE AND OTHER RECEIVABLES**		
	Insurance receivables		
	Contributions outstanding	62 002 169	48 969 880
	Amount due	62 002 169	48 969 880
	Recoveries from members and suppliers	2 725 587	1 799 993
	Amount due	5 755 097	5 647 842
	Impairment losses	(3 029 510)	(3 847 849)
	Total receivables arising from insurance contracts	**64 727 756**	**50 769 873**
	Loans and receivables		
	Interest receivable	5 836 594	6 252 755
	Loans to employees - current portion	308 867	90 332
	Total outstanding	308 867	411 649
	Less: Long-term portion	-	(321 317)
	Total receivables arising from loans and receivables	**6 145 461**	**6 343 087**
	Other receivables		
	Prepaid expenses	208 335	246 658
	Sundry accounts receivable	614 867	306 707
	Total receivables arising from other receivables	**823 202**	**553 365**
	Total trade and other receivables	**71 696 419**	**57 666 325**

At 31 December 2012 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.

The loans to employees carries interest at 8% and is repayable over 72 months with 37 (2011: 49) remaining instalments. The loan was settled in January 2013.

		2012 R	2011 R
5.	**CASH AND CASH EQUIVALENTS**		
5.1	**CURRENT, CALL AND SHORT TERM DEPOSITS**		
	Call deposits	93 650 000	92 000 000
	Short term fixed deposits	284 000 000	299 000 000
	Current accounts	45 370 069	37 192 519
	Total current, call and fixed accounts	**423 020 069**	**428 192 519**

The weighted average effective interest rate on short-term bank deposits was 5.73% (2011 - 5.96%). These deposits have an average maturity of 140 days (2011 - 61 days).

At 31 December 2012 the carrying amounts of cash and cash equivalents approximate their fair values due to the short term maturities of these assets.

5.2	**MEDICAL SAVINGS ACCOUNT TRUST FUNDS**		
	Current account	98 591 353	-
	Total trust funds invested	**98 591 353**	**-**

The weighted average effective interest rate on the current account was 4.5%.

At 31 December 2012 the carrying amounts of the trust funds approximate their fair values due to the short term maturities of these assets.

TOTAL CASH AND CASH EQUIVALENTS	**521 611 422**	**428 192 519**

		2012 R	2011 R
6.	**OUTSTANDING RISK CLAIMS PROVISION**		
	Outstanding risk claims provision - not covered by risk transfer arrangements	**32 500 000**	**23 500 000**
	Analysis of movement in outstanding risk claims		
	Balance at beginning of year	23 500 000	19 200 000
	Payments in respect of prior year	(23 537 749)	(18 231 631)
	(Under)/over provision in respect of prior year	(37 749)	968 369
	Adjustment for the current year	32 537 749	22 531 631
	Not covered by risk transfer arrangements	32 537 749	22 531 631
	Balance at end of year	**32 500 000**	**23 500 000**
	Analysis of outstanding risk claims provision		
	Estimated gross claims	35 481 218	26 725 189
	Less:		
	Estimated recoveries from members' savings accounts (Note 7)	(2 981 218)	(3 225 189)
	Balance at end of year	**32 500 000**	**23 500 000**

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 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 2012 and the actual risk claims reported and paid in 2012, for services provided in 2012.

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.

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.

6. OUTSTANDING RISK CLAIMS PROVISION (continued)

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 2012 and 2011 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 2012 for 2011;
- Traditional "chain ladder" methods, using risk claims development patterns derived from 2011 and 2012 as well as an analysis of the development patterns of December 2011 in isolation (i.e adjustments for seasonality); and
- An analysis of risk claims already paid in 2013 for 2012.

Refer to note 25 for an analysis of the impact of changes in assumptions and sensitivities to changes in key variables.

		2012 R	2011 R
7.	**MEDICAL SAVINGS ACCOUNT TRUST LIABILITY**		
	Balance on savings account liability at the beginning of the year	91 131 049	81 288 845
	Add:		
	Savings account contributions received or receivable for the current year (Note 10)	254 865 220	208 898 901
	Transfers received from other medical schemes	846 603	720 409
	Interest earned on MSA	4 106 423	-
	Less:		
	Claims paid to or on behalf of members (Note 11)	(239 909 266)	(197 901 961)
	Refunds on death or resignation	(4 263 053)	(1 875 145)
	Balance on savings accounts liability at the end of the year	**106 776 976**	**91 131 049**

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

The savings accounts contain a demand feature. In terms of Regulation 10 of the Act, any credit balance on a member's personal medical savings account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit option, and enrols in another benefit option or medical scheme without a personal medical savings account or does not enrol in another medical scheme.

Estimated claims to be paid out of members' savings accounts in respect of claims incurred in 2012 but not reported: (Note 6)	**2 981 218**	**3 225 189**

In line with the requirement of Council Circulars 38/2011 and 5/2012, the Scheme opened a separate bank account during 2012 for the managing of the medical savings accounts. All interest earned in this bank account is allocated to members with positive balances. This account currently earns interest at a rate of 4,5%. Previously, per the Rules of the Scheme, no interest was paid.

Interest is paid on the medical savings accounts based on the effective interest method. Investment of medical savings account trust monies managed by the Scheme on behalf of its members, has been seperately disclosed under note 5.

The mismatch between the medical savings account trust liability and the personal medical savings account trust funds relate to timing differences. These differences cleared after year-end.

At 31 December 2012 the carrying amount of the medical savings account trust liability approximates its fair value, since it is payable on demand. These amounts were not discounted to present values due to their demand feature.

		2012 R	2011 R
8.	**TRADE AND OTHER PAYABLES**		
	Insurance liabilities		
	Member and supplier liability - stale cheques	628 649	1 034 095
	Reported claims not yet paid	17 673 353	14 086 355
	Member balances	7 265 094	5 555 548
	Supplier balances	10 408 259	8 530 807
	Unallocated receipts	330 969	259 157
	Total liabilities arising from insurance contracts	**18 632 971**	**15 379 607**
	Other liabilities		
	Broker fees	2 602 677	4 401 970
	Related party balance	12 011 299	9 688 644
	Discovery Health (Pty) Ltd (Note 22)	12 011 299	9 688 644
	Other payables and accrued expenses	305 362	149 526
	Audit fee accrual	417 784	399 060
	Total financial liabilities	**15 337 122**	**14 639 200**
	Total trade and other payables	**33 970 093**	**30 018 807**

At 31 December 2012 the carrying amounts of other liabilities approximate their fair values due to the short-term maturities of these liabilities.

9. POST RETIREMENT HEALTHCARE FUNDING

Provision for post retirement healthcare funding

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2012

	2012 R	2011 R
Change in liability		
Opening balance	2 522 000	2 909 000
Service cost	40 000	36 000
Interest cost	227 000	234 000
Actuarial gain	485 000	(519 000)
Benefits paid	(120 000)	(138 000)
Closing balance	**3 154 000**	**2 522 000**
Service cost %	10.59%	9.28%
Interest cost %	9.00%	8.04%
Statement of financial position		
Projected benefit obligation	3 154 000	2 522 000
Net obligation per statement of financial position	**3 154 000**	**2 522 000**
Statement of comprehensive income		
Service cost	40 000	36 000
Interest cost	227 000	234 000
Actuarial gain recognised	485 000	(519 000)
Amount recognised in profit or loss	**752 000**	**(249 000)**
Reconciliation of item in statement of financial position		
Opening value	2 522 000	2 909 000
Employer contribution	(120 000)	(138 000)
Amount recognised in profit or loss	752 000	(249 000)
Closing value	**3 154 000**	**2 522 000**
Key valuation assumptions		
Discount rate	9.00%	9.25%
Medical aid inflation	8.75%	8.00%
Sensitivity of results		
1% increase in medical aid inflation		
Increase in liability	502 000	375 000
Increase in service cost and interest cost	61 000	46 000
1% decrease in medical aid inflation		
Decrease in liability	405 000	305 000
Decrease in service cost and interest cost	49 000	37 000

		2012 R	2011 R
10.	**RISK CONTRIBUTION INCOME**		
	Gross contributions per registered rules	1 444 890 836	1 187 875 634
	Less: savings contributions received*	(254 865 220)	(208 898 901)
	Risk contribution income per statement of comprehensive income	**1 190 025 616**	**978 976 733**

* The savings contributions are received by the Scheme in terms of Regulation 10(1) and the Scheme's registered rules and held in trust on behalf of its members. Refer to note 7 for more detail on how these monies were utilised.

11.	**RISK CLAIMS INCURRED**		
	Current year claims per registered rules	1 188 729 878	983 654 751
	Movement in outstanding risk claims provision	9 000 000	4 300 000
	Under/(over) provision in respect of prior year (Note 6)	37 749	(968 369)
	Adjustment for current year	8 962 251	5 268 369
	Claims paid from personal medical savings accounts*	(239 909 266)	(197 901 961)
	Claims incurred excluding claims incurred in respect of risk transfer arrangements	957 820 612	790 052 790
	Claims incurred in respect of risk transfer arrangements	7 217 589	6 296 652
	Risk claims incurred	**965 038 201**	**796 349 442**

* Claims are paid on behalf of the members from their personal medical savings accounts in terms of Regulation 10(3) and the Scheme's registered benefits. Refer to note 7 for a breakdown of the movement in these balances.

12.	**MANAGED CARE: MANAGEMENT SERVICES FEES**		
	Provider service account review	213 036	200 796
	Case management *	5 135 295	4 242 148
	Clinical claims review and management *	11 081 427	9 154 109
	Disease management *	2 702 787	2 232 710
	Hospital pre-authorisation *	5 405 574	4 465 419
	Network management *	2 702 787	2 232 710
		27 240 906	**22 527 892**

* The breakdown of these amounts are based on estimates.

13.	**BROKER SERVICES FEES**		
	Brokers' fees	**29 022 147**	**22 515 035**

		2012 R	2011 R
14.	**NET INCOME/(EXPENSE) ON RISK TRANSFER ARRANGEMENTS**		
	Capitation fees paid	(7 018 154)	(6 530 328)
	Recoveries under risk transfer arrangements	7 217 589	6 296 652
		199 435	**(233 676)**

During 2012 the Scheme had three risk transfer arrangements in place. The methodologies used to determine the claims covered by these arrangements are set out below.

1. Risk transfer arrangement providing optometry services for members on the LA KeyPlus option.

   The utilisation experience for these members is obtained from the service provider. The average cost to the Scheme for consultations, lenses, frames and contact lenses is calculated and multiplied to the utilisation experience to estimate the claims under this arrangement.

2. Risk transfer arrangement providing dentistry services to members on the LA KeyPlus option.

   The Scheme had access to the actual claims relating to these members and has disclosed these claims paid under this arrangement.

3. Risk transfer arrangement covering treatment for LA Comprehensive and LA Core plan members diagnosed with diabetes.

   Members have a choice of using this managed care organisation for their diabetes related treatment or not. As the risk profile of the two groups of members are similar, the claims experience of the LA Comprehensive and LA Core plan members who have not elected to use this provider, was used to estimate the members' fee-for-service cost for those who have elected to use this provider.

The cost of providing the capitated services was estimated as follows:

- The claims experience of the non-CDE members was used to estimate the CDE members' fee-for-service cost;
- Per life per month estimates were calculated for consultations, procedures, medication and hospital admissions to the extent that these services were covered under this risk transfer arrangement for the LA Comprehensive and LA Core plan members who have not elected this provider;
- The expected fee-for-service cost was calculated by multiplying the calculated per life per month costs by the number of members exposed for the period on this programme; and
- The costs were split based on whether the member was a Type I or Type II diabetic.

14. NET INCOME/(EXPENSE) ON RISK TRANSFER ARRANGEMENTS (continued)

Service providers in 2012		Nature of risk covered	Term	Basis of fees
Optical Management	**Iso Leso Optics Limited**	Iso Leso Optics Limited provides services to and in respect of optometric services and/or optical dispensing services and supplies, as stipulated in the Agreement. This relates to the LA KeyPlus option only.	Renewable annually.	The capitation fee is based on the number of members on the LA KeyPlus option.
Dental Benefit Management	**Dental Risk Company (Pty) Ltd**	Dental Risk Company (Pty) Ltd is a managed care organisation providing services relating to Dental Services rendered by the DRC Network of Dental Providers, as stipulated in the Agreement. This relates to the LA KeyPlus option only	Renewable annually.	The capitation fee is based on the number of principal members on the LA KeyPlus option.
Disease Management	**CDE Holdings (Pty) Ltd**	CDE Holdings (Pty) Ltd is an accredited managed care organisation providing services to and in respect of the treatment of Diabetes as stipulated in the Agreement. This relates to the LA Comprehensive and LA Core options only.	Renewable annually.	The capitation fee is based on the number of enrolled beneficiaries and varies per diabetes type.

		2012 R	2011 R
15.	**INVESTMENT INCOME**		
	Income from investments	24 837 073	21 961 919
	Cash and cash equivalents' interest income	24 830 559	21 904 777
	Dividends	6 514	57 142
	Net gains/(losses) on investments	102 061	(266 582)
	Amortisation on held-to-maturity investments	-	(110 606)
	Gains/(losses) on revaluation of investments (Note 3)	102 061	(155 976)
		24 939 134	**21 695 337**
16.	**SUNDRY INCOME**		
	Prescribed cheques written back	52 351	410 484
	Other income	85 453	14 164
		137 804	**424 648**
17.	**INTEREST PAID**		
	Interest paid on MSA	4 106 424	-
		4 106 424	**-**

In line with the requirement of Council Circulars 38/2011 and 5/2012, the Scheme opened a separate bank account during 2012 for the managing of the medical savings accounts. All interest earned in this bank account is allocated to members with positive balances. This account currently earns interest at a rate of 4,5%. Previously, per the Rules of the Scheme, no interest was paid.

		2012 R	2011 R
18.	**SUNDRY EXPENSES**		
	Actuarial consulting fees	540 060	511 110
	Association fees	483 384	359 098
	Audit Committee expenses	58 421	66 543
	Audit fees	535 717	503 895
	Audit services - current year	519 000	437 913
	Over provision - prior year	(4 458)	-
	Other services	21 175	65 982
	Board of Trustees' reimbursements and remuneration (Note 24)	2 417 578	2 103 346
	Council for Medical Schemes fees	910 086	646 317
	Depreciation	55 645	66 654
	Election costs	491 300	-
	Fidelity guarantee and professional indemnity insurance premiums	8 750	8 750
	Insurance	47 391	49 153
	Legal expenses	145 156	211 921
	Medical emergency call centre	318 348	264 171
	Meeting facility costs	80 599	48 576
	Public relations and communications	520 531	499 598
	Rental equipment	26 235	31 792
	Other administration expenses	5 858 030	4 257 196
	Bank charges	387 603	409 113
	Office rent and support	574 109	594 424
	Other expenses	289 786	286 696
	Maintenance of equipment	159 813	181 379
	Post retirement healthcare costs	632 000	(387 000)
	Printing, stationery and postage	39 268	32 245
	Staff costs	3 775 451	3 140 339
		12 497 231	**9 628 120**

Included in office rent and support is an amount for the operating lease in respect of the office rent.

		2012 R	2011 R
19.	**NET IMPAIRMENT LOSSES**		
	Insurance receivables		
	Members' and service providers' portions that are not recoverable	2 452 082	2 165 511
	(Decrease)/increase in impairment	(818 339)	729 565
	Written off	3 270 421	1 435 946
		2 452 082	**2 165 511**

20.	**CASH FLOWS FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES**		
	Surplus for the year	75 872 434	64 790 426
	Adjustments for:		
	Depreciation (Note 2)	55 645	66 654
	(Gains)/losses investments held at fair value through profit or loss (Note 3)	(102 061)	155 976
	Amortisation (Note 15)	-	110 606
	Provision for post retirement healthcare funding (Note 9)	632 000	(387 000)
	Interest received (Note 15)	(24 830 559)	(21 904 777)
	Dividends received (Note 15)	(6 514)	(57 142)
	Interest paid (Note 17)	4 106 424	-
	Cash flows from operations before working capital changes	**55 727 369**	**42 774 743**

21. 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.

22. RELATED PARTY TRANSACTIONS

Parties with significant influence over the Scheme:

Board of Trustees
During the first part of the year there were ten member proposed and elected Trustees and five appointed Trustees. Effective 1 July 2012 there were 16 elected trustees.

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. The Administrator does not fall within the definition of a related party, however, due to the significance of the outsourcing relationship the information has been included.

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. This disclosure deals with full-time personnel who are compensated on a salary basis (Principal Officer), and Board of Trustee members who are paid a monthly retainer and reimbursed for costs incurred.

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. These transactions are done at arm's length.

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

	2012 R	2011 R
Statement of comprehensive income		
Gross contributions received	927 009	832 023
Gross claims incurred	(172 150)	(460 577)
Office of the Principal Officer	(2 594 714)	(2 248 719)
Board of Trustees' reimbursements and remuneration (Note 24)	(2 417 578)	(2 103 346)
Interest on medical savings account balances	(1 778)	-
Statement of financial position		
Medical savings account balances	(43 496)	(40 611)
Outstanding loan balances with full time personnel	308 867	411 649

22. RELATED PARTY TRANSACTIONS (continued)

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

Transaction	Nature of transactions and terms and conditions thereof
Contributions received	This constitutes the contributions paid by the related parties as members of the Scheme, in their individual capacity. All contributions were on the same terms as those applicable to other members.
Claims incurred	This constitutes amounts claimed by the related parties, in their individual capacity as members of the Scheme. All claims were paid out in terms of the rules of the Scheme, as applicable to other members.
Contribution debtors	This constitutes outstanding contributions receivable. The amounts are due immediately. No impairments have been raised on these amounts.
Claims reported not yet paid	These are claims that have been reported, but not yet paid due to the fact that the Scheme's year end fell between the claims payment runs. Claims are settled within 30 days of being received.
Medical savings account balances	The amounts owing to the related parties relate to medical savings account balances to which the parties have a right. The amounts are all current, and would need to be payable on demand should an appropriate claim be issued, or should the member resign from the Scheme.
Loan to full time personnel	The loan carries interest at 8% and is repayable over 72 months.
MSA interest	Interest is earned on positive MSA balances at a rate of 4,5% per annum.

22. RELATED PARTY TRANSACTIONS (continued)

Transactions with entities that have significant influence over the Scheme

	2012 R	2011 R
Discovery Health (Pty) Ltd - Administrator		
Statement of comprehensive income		
Administration fees paid	101 685 690	84 191 225
Medical emergency call centre (Note 18)	318 348	264 171
Discovery Health (Pty) Ltd - managed care organisation		
Statement of comprehensive income		
Managed care fees paid	27 027 870	22 327 096
Statement of financial position		
Balance due to Discovery Health (Pty) Ltd at year end (Note 8)	(12 011 299)	(9 688 644)

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.

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

2012	LA CORE	LA COMPREHENSIVE	LA FOCUS	LA ACTIVE	LA KEYPLUS	TOTAL
In-hospital costs covered	100%, no limit	100%, no limit	100%, no limit	100%, no limit	100%, no limit	
Medical savings account	Yes	Yes	Yes	Yes	No	
Chronic conditions	Covering: PMB plus HIV plus Additional conditions	Covering: PMB plus HIV plus Additional conditions	Covering: PMB plus HIV	Covering: PMB plus HIV	Covering: PMB plus HIV	
	R	R	R	R	R	R
Net contribution income	**263 767 350**	**147 514 833**	**87 958 858**	**610 491 464**	**80 293 111**	**1 190 025 616**
Relevant healthcare expenditure	**(226 508 996)**	**(136 240 042)**	**(68 515 926)**	**(470 182 737)**	**(60 777 939)**	**(962 225 640)**
Net claims incurred	(226 436 928)	(136 043 632)	(68 515 926)	(470 182 737)	(61 245 852)	(962 425 075)
Claims incurred	(227 051 738)	(136 413 010)	(68 701 957)	(471 459 352)	(61 412 144)	(965 038 201)
Claims recoveries from third parties	614 810	369 378	186 031	1 276 615	166 292	2 613 126
Net income/(expense) on risk transfer arrangements	(72 068)	(196 410)	-	-	467 913	199 435
Risk transfer arrangement fees	(997 781)	(2 719 318)	-	-	(3 301 055)	(7 018 154)
Recoveries from risk transfer arrangements	925 713	2 522 908	-	-	3 768 968	7 217 589
Gross healthcare results	**37 258 354**	**11 274 791**	**19 442 932**	**140 308 727**	**19 515 172**	**227 799 976**
Managed care: management services fees	(3 991 214)	(1 921 634)	(2 982 139)	(14 941 866)	(3 404 053)	(27 240 906)
Broker service fees	(3 068 813)	(2 670 738)	(2 911 441)	(17 846 806)	(2 524 349)	(29 022 147)
Administration fees	(15 870 026)	(7 637 390)	(11 873 822)	(59 524 880)	(6 779 572)	(101 685 690)
Other operating expenses *	(1 826 106)	(878 834)	(1 366 338)	(6 849 780)	(1 576 173)	(12 497 231)
Net impairment losses *	(358 300)	(172 436)	(268 089)	(1 343 996)	(309 261)	(2 452 082)
Net healthcare results	**12 143 895**	**(2 006 241)**	**41 103**	**39 801 399**	**4 921 764**	**54 901 920**
Other income *	3 664 262	1 763 468	2 741 694	13 744 766	3 162 748	25 076 938
Other expenditure *	(600 034)	(288 773)	(448 961)	(2 250 747)	(517 909)	(4 106 424)
Surplus/(deficit) for the year	**15 208 123**	**(531 546)**	**2 333 836**	**51 295 418**	**7 566 603**	**75 872 434**
Average membership	***6 057***	***2 915***	***4 532***	***22 720***	***5 228***	***41 452***

**** Allocated to the respective Options using the average membership.***

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

2011	LA CORE	LA COMPREHENSIVE	LA FOCUS	LA ACTIVE	LA KEYPLUS	TOTAL
In-hospital costs covered	100%, no limit	100%, no limit	100%, no limit	100%, no limit	100%, no limit	
Medical savings account	Yes	Yes	Yes	Yes	No	
Chronic conditions	Covering: PMB plus HIV plus Additional conditions	Covering: PMB plus HIV plus Additional conditions	Covering: PMB plus HIV	Covering: PMB plus HIV	Covering: PMB plus HIV	
	R	R	R	R	R	R
Net contribution income	**249 232 248**	**139 045 877**	**70 543 089**	**454 767 406**	**65 388 113**	**978 976 733**
Relevant healthcare expenditure	**(205 191 008)**	**(133 926 130)**	**(49 225 391)**	**(358 485 783)**	**(48 450 197)**	**(795 278 509)**
Net claims incurred	(205 249 792)	(134 070 302)	(49 225 391)	(358 485 783)	(48 013 565)	(795 044 833)
Claims incurred	(205 586 592)	(134 290 300)	(49 306 166)	(359 074 032)	(48 092 352)	(796 349 442)
Claims recoveries from third parties	336 800	219 998	80 775	588 249	78 787	1 304 609
Net income/(expense) on risk transfer arrangements	58 784	144 172	-	-	(436 632)	(233 676)
Risk transfer arrangement fees	(449 706)	(2 762 909)	-	-	(3 317 713)	(6 530 328)
Recoveries from risk transfer arrangements	508 490	2 907 081	-	-	2 881 081	6 296 652
Gross healthcare results	**44 041 240**	**5 119 747**	**21 317 698**	**96 281 623**	**16 937 916**	**183 698 224**
Managed care: management services fees	(3 870 065)	(1 955 549)	(2 546 882)	(11 438 602)	(2 716 794)	(22 527 892)
Broker service fees	(3 412 220)	(1 713 109)	(2 455 412)	(12 313 536)	(2 620 758)	(22 515 035)
Administration fees	(15 391 080)	(7 777 138)	(9 807 933)	(45 811 747)	(5 403 327)	(84 191 225)
Other operating expenses *	(1 651 198)	(834 270)	(1 052 242)	(4 915 442)	(1 174 968)	(9 628 120)
Net impairment losses *	(371 380)	(187 640)	(236 665)	(1 105 558)	(264 268)	(2 165 511)
Net healthcare results	**19 345 297**	**(7 347 959)**	**5 218 564**	**20 696 738**	**4 757 801**	**42 670 441**
Other income *	3 793 521	1 916 682	2 417 457	11 292 912	2 699 413	22 119 985
Surplus/(deficit) for the year	**23 138 818**	**(5 431 277)**	**7 636 021**	**31 989 650**	**7 457 214**	**64 790 426**
Average membership	***6 189***	***3 127***	***3 944***	***18 424***	***4 404***	***36 088***

**** Allocated to the respective Options using the average membership.***

24. TRUSTEES' REIMBURSEMENTS AND REMUNERATION 2012

	Location	Subsistence and accommodation R	Travelling R	Conference fees R	Telephone R	Strategic session R	Retainer fee R	Total R
Barnard, RC	Port Elizabeth	18 125	32 903	17 051	-	7 111	77 184	152 374
Bennett, A	Johannesburg	21 330	50 950	15 177	3 600	12 020	84 912	187 989
Beukman, GJ	Langebaan	25 691	104 727 *	2 473	3 600	5 161	92 628	234 280
Bosman, R	Johannesburg	14 767	49 868	24 089	-	11 822	76 292	176 838
Carstens, DL	Paarl	14 494	1 570	17 313	-	6 362	77 184	116 923
De Bruyn, R	Pretoria	15 468	50 770	23 877	-	11 872	77 184	179 171
Denge, R	Johannesburg	16 222	37 045	20 115	-	5 460	77 184	156 026
Deysel, HA	Queenstown	33 035	58 326	24 781	3 600	11 769	84 912	216 423
Field, R	Cape Town	4 643	6 442	17 492	1 200	6 392	79 760	115 929
Hoffman, F	Cape Town	5 043	4 159	13 045	-	2 940	77 184	102 371
Kaunda, S #	Durban	12 344	19 455	2 342	-	6 822	51 456	92 419
Lemmer, A	Port Elizabeth	13 523	37 544	17 019	-	11 933	77 184	157 203
Louwrens, P #	Johannesburg	9 806	23 146	12 338	-	-	38 592	83 882
Mattheus, ME	Port Elizabeth	22 053	47 414	22 673	2 400	10 997	77 512	183 049
Schultz, MCT	Cape Town	7 372	8 561	17 888	1 931	5 685	75 984	117 421
Seymour, I #	Cape Town	-	-	6 439	-	-	25 728	32 167
Sibiya, L #	Fochville	5 068	11 169	5 488	-	-	38 592	60 317
Vorster, A #	Cape Town	5 862	8 250	-	-	-	38 684	52 796
		244 846	**552 299**	**259 600**	**16 331**	**116 346**	**1 228 156**	**2 417 578**

* - International Federation of Healthcare Funders conference attendance
# - Not trustees for the full year

24. TRUSTEES' REIMBURSEMENTS AND REMUNERATION 2011

	Location	Subsistence and accommodation R	Travelling R	Conference fees R	Telephone R	Strategic session R	Retainer fee R	Total R
Barnard, RC	Port Elizabeth	13 530	23 963	24 294	-	6 033	72 756	140 576
Bennett, A	Johannesburg	12 684	50 616	25 440	3 600	9 067	80 028	181 435
Beukman, GJ	Cape Town	11 509	6 785	34 144	3 600	3 100	87 300	146 438
Bosman, R	Johannesburg	11 594	29 979	16 799	-	9 404	72 756	140 532
Carstens, DL	Paarl	5 704	608	26 706	-	-	72 756	105 774
De Bruyn, R	Pretoria	9 665	43 409	16 111	-	8 937	72 756	150 878
Denge, R	Johannesburg	8 848	14 003	16 239	-	8 271	72 756	120 117
Deysel, HA	Queenstown	13 148	39 553	30 681	3 600	9 614	80 028	176 624
Field, R	Cape Town	1 832	1 270	33 488	-	3 175	72 756	112 521
Hoffman, F	Cape Town	1 482	1 399	23 855	-	2 470	72 756	101 962
Kaunda, S	Durban	12 829	17 161	26 044	-	-	72 756	128 790
Lemmer, A	Port Elizabeth	13 149	35 196	23 070	-	6 299	72 756	150 470
Mattheus, ME	Port Elizabeth	12 985	41 253	29 088	3 600	7 499	80 028	174 453
Schultz, MCT	Cape Town	1 663	11 919	27 211	687	4 306	71 556	117 342
Sibiya, L	Fochville	14 565	34 966	18 432	-	14 715	72 756	155 434
		145 187	**352 080**	**371 602**	**15 087**	**92 890**	**1 126 500**	**2 103 346**

25. INSURANCE RISK MANAGEMENT REPORT

Nature and extent of risks arising from insurance contracts

The primary insurance activity carried out by the Scheme indemnifies covered members and their dependants against the risk of loss arising as a result of the occurrence of a health event (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. Insurance events are, by nature, random and the actual number and size of events during any one year may vary from those estimated using established techniques. Risk transferred under risk transfer arrangements has been disclosed under note 14.

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

Insurance risk

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Scheme faces under its insurance contracts is that the actual claim payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency and severity of claims are greater than estimated. As insurance events are random, the actual number and amount of claims will vary from year to year from the level established using statistical techniques.

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.

The Scheme offers members five benefit options. The main types of benefits offered by the Scheme in return for monthly contributions are indicated below:

Hospital benefits

The hospital benefit covers medical expenses incurred if members are admitted to hospital and the Scheme has authorised the treatment.

Chronic Illness Benefit (CIB)

On all benefit options the Scheme provides cover for the Prescribed Minimum Benefit (PMB) chronic conditions and HIV/AIDS. On two of the options, the Scheme provides extended cover for a defined list of additional chronic conditions.

Day-to-day benefits

The day-to-day benefits, which includes MSA, cover the cost of out-of-hospital health care services, such as visits to general practitioners and dentists as well as prescribed acute medicine.

25. INSURANCE RISK MANAGEMENT REPORT (continued)

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

Hospital benefit risk

Frequency and severity of claims
The frequency and severity of claims can be affected by several factors. The most significant factor is the admission rate which has a direct impact on the cost of claims.

Certain factors that impact on hospital claims are shown below:

Key indicators	2012	2011	% Increase/ (decrease)
Admission rate	24.33%	25.87%	(5.95)
Events per 1000 lives	20.28	21.56	(5.94)
Average length of stay (days)	3.87	3.69	4.88
Average cost per event	27 218	26 754	1.73
Average cost per life per month	376.93	376.04	0.24

Initiatives used by the Scheme to manage the risk associated with admission rate include:
- The development of protocols for various procedures;
- The "See your doctor first" initiative which requires members to see their doctor prior to an elective admission; and
- The amendment to the pre-authorisation length of stay benchmarks.

Chronic Illness Benefit (CIB) risk

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

25. INSURANCE RISK MANAGEMENT REPORT (continued)

The mix between the various chronic conditions impacts the frequency and severity of claims. The following table shows the change in the chronic prevalence per condition for the top five chronic conditions.

Condition	2012	2011	% Increase/ (decrease)
Hypertension	107 215	100 366	6.82
Hyperlipidaemia	54 698	51 517	6.17
Diabetes Mellitus Type 2	26 082	24 914	4.69
Hyperthyroidism	16 214	15 617	3.82
Coronary Artery Disease	10 658	9 703	9.84

Day-to-day benefit risk

Frequency and severity of claims
The Above Threshold Benefit component in the comprehensive option results in the largest day-to-day risk to the Scheme after the threshold is reached. The frequency and severity of claims are driven by the number of claimants, and their health statuses.

Concentration of insurance risk
The following table, based on service date claims (net of adjustments), summarises the concentration of insurance risk, with reference to the carrying amount, per beneficiary, of the insurance claims incurred for service years 2012 and 2011, by age group and in relation to the type of risk cover/benefits provided.

Claims incurred for 2012 service year per beneficiary

Age grouping (in years)	In-hospital R	Chronic R	Day-to-day R	Total R
< 26	2 607	76	699	3 382
26 – 35	5 469	377	1 619	7 465
36 – 50	5 754	755	1 873	8 382
> 50	15 504	2 279	3 942	21 725
Total	**29 334**	**3 487**	**8 133**	**40 954**

Claims incurred for 2011 service year per beneficiary

Age grouping (in years)	In-hospital R	Chronic R	Day-to-day R	Total R
< 26	2 402	67	658	3 127
26 – 35	5 095	327	1 469	6 891
36 – 50	6 096	692	1 774	8 562
> 50	14 828	2 408	4 027	21 263
Total	**28 421**	**3 494**	**7 928**	**39 843**

25. INSURANCE RISK MANAGEMENT REPORT (continued)

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 since it is believed that this reduces the variability of the outcomes on the different benefit options.

The strategy is set out in the annual business plan, which specifies the benefits to be provided, taking into consideration the profile of each benefit option and contributions required to fund expenses.

All contracts are negotiated and renewed annually. The Scheme has the right to change the terms and conditions of each contract at renewal. Contracts can be terminated at any time during the year, subject to written notice as required in terms of the contract. Management information, including contribution income and claims ratios by option, is reviewed monthly.

Risk transfer arrangements
The Scheme entered into capitation agreements to cover specific risks. The Scheme has contracts with the Centre for Diabetes and Endocrinology (CDE), Iso Leso (Pty) Ltd and Dental Risk Company.

Risk in terms of risk transfer arrangements
According to the terms of these capitation agreements, the suppliers provide certain specified benefits to Scheme members, as and when required by the members. The Scheme does, however, remain liable to its members if the suppliers fail to meet the obligations they assume.

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 risk claims outstanding that are not yet reported at that date. Details regarding the subsequent risk claims development in respect thereof have been disclosed in note 6.

Risk management objectives and policies for mitigating insurance risk
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.

25. INSURANCE RISK MANAGEMENT REPORT (continued)

The following factors affect the frequency and severity of claims:

- Fee-for-service provider reimbursement combined with a third-party payer creates the incentive for over servicing of members. The Scheme uses alternative reimbursement arrangements such as fixed fees and capitation fees to mitigate this risk;
- The demographic profile of the membership base i.e. older, sickly members require more frequent and more intense treatment than younger, healthier members. This risk is managed through the regular updating of internal risk management models which assess the impact of any changes to the Scheme's demographic profile;
- Technological advances in healthcare generally increases the cost of treatment. This may be due to either the increased price of the new technology or the increased quantity of treatment. This risk is mitigated through a rigorous health technology assessment process which determines whether the technology is cost-effective and whether it should be funded; and
- The price of covered services affects the severity of claims. This risk is mitigated by the Scheme's Rules, which specify the maximum rate at which each treatment is funded. The Scheme also manages this risk through annual tariff agreements with certain provider groups.

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 claims made under insurance contracts.

Process used to determine the assumptions
Refer to note 6.

Changes in assumptions and sensitivities to changes in key variables
The table on the next page 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.

25. INSURANCE RISK MANAGEMENT REPORT (continued)

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 profits caused by changes in key variables:

	Increase in liability %	Increase in liability 2012 R	Increase in liability 2011 R
In-hospital claims incurred	1% increase in claims costs	6 662 018	5 596 219
Chronic claims incurred	1% increase in claims costs	765 816	674 378
Out-of-hospital risk claims incurred	1% increase in claims costs	1 283 841	1 117 669

The Scheme is most vulnerable to changes in membership distribution and changes in the underlying rate of inflation, which drives a number of assumptions.

Sensitivity of the Scheme's profitability and reserves to changes in variables that have a material effect on them

The Scheme's profitability, reserves and therefore solvency are most sensitive to changes in risk claims development patterns. Other assumptions that are considered include assumptions regarding utilisation trends, the impact of new technology and the expected demographic profile of the Scheme's membership.

Underwriting risk

Underwriting risk is the risk that the actual exposure of the Scheme in respect of outstanding risk claims will exceed prudent estimates of the amounts provided for the cash flows required to settle them. External actuaries have been consulted in setting these estimates at year end, including the estimate for those claims outstanding at year end, which had not yet been reported. The details of the estimation process are fully disclosed in note 6.

26. 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 and trade and other receivables and loans to employees. 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; and
- Actively managing the repayment of loans to employees in terms of the contractual agreements.

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 1.7.

26. FINANCIAL RISK MANAGEMENT REPORT (continued)

Investments

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.

The Scheme limits its exposure to credit risk by investing only in liquid securities and only with counterparties that have a credit rating of no less than F1+ (short term) and AA (long term) as rated by Fitch Ratings. Given their high credit ratings, the Trustees do not expect any counterparty to fail to meet its obligations. Annexure B of the Regulations to the Act, prescribes the credit limits per institution, which reduces the individual risk per institution. The exposure to these credit limits are regularly monitored.

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	
		2012	2011
		R	R
Trade and other receivables		70 873 217	57 112 960
Insurance receivables	4	64 727 756	50 769 873
Loans and receivables	4	6 145 461	6 343 087
Loans to employees (long term portion)	4	-	321 317
Cash and equivalents			
Current, call and short term deposits	5.1	423 020 069	428 192 519
Personal medical savings account trust funds	5.2	98 591 353	-
		592 484 639	**485 626 796**

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 member and service provider claims receivables was:

Member claim receivables	2 023 962	1 658 927
Service provider claim receivables	701 626	141 066
	2 725 588	**1 799 993**

26. FINANCIAL RISK MANAGEMENT REPORT (continued)

Impairment losses

The ageing of insurance receivables at year end was:

	Gross 2012 R	Impairment 2012 R	Gross 2011 R	Impairment 2011 R
Not past due	61 656 239	-	48 494 290	-
Past due 0 - 30 days	1 581 806	-	744 382	-
Past due 31 - 90 days	1 219 949	462 444	966 801	320 515
Past due 91 days +	3 299 272	2 567 066	4 412 249	3 527 334
Total	**67 757 266**	**3 029 510**	**54 617 722**	**3 847 849**

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

	Trade and other receivables			
	Insurance receivables			
	Contribution debtors	Member and service provider claims debtors	*Loans and receivables*	Total
	R	R	*R*	R
Balance as at 1 January 2011	**-**	**3 118 284**	**-**	**3 118 284**
Increase in impairment	-	(706 381)	-	**(706 381)**
Amounts reversed during the year	-	1 435 946	-	**1 435 946**
Balance as at 31 December 2011	**-**	**3 847 849**	**-**	**3 847 849**
Balance as at 1 January 2012	**-**	**3 847 849**	**-**	**3 847 849**
Decrease in impairment	-	(4 088 760)	-	**(4 088 760)**
Amounts reversed during the year	-	3 270 421	-	**3 270 421**
Balance as at 31 December 2012	**-**	**3 029 510**	**-**	**3 029 510**

26. FINANCIAL RISK MANAGEMENT REPORT (continued)

Investments

The table below shows the exposure limit and balance of cash or deposits held (excluding MSA trust funds) at five major counterparties at year end.

Counterparty	2012		2011	
	Exposure limit	Balance	Exposure limit	Balance
	R	R	R	R
1	148 107 545	90 686 599	150 739 475	76 371 673
2	148 107 545	97 583 470	150 739 475	94 320 845
3	148 107 545	75 750 000	150 739 475	86 000 000
4	148 107 545	78 500 000	150 739 475	87 000 000
5	148 107 545	80 500 000	150 739 475	84 500 000

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

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:

	2012 R	2011 R
Insurance receivables		
Counterparties without external credit rating:		
Contribution debtors	62 002 169	48 969 880
Members claim debtors	4 815 760	5 342 130
Providers claim debtors	939 337	305 712

Contribution debtors
On analysing the credit quality of contribution debtors, the Scheme collected 99% of these amounts in January 2013. 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 and personal medical savings account trust funds

Counterparties with external credit ratings (Fitch's):

F1+	**521 611 422**	**428 192 519**

26. 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 ensure that the Scheme has the ability to fund day-to-day operations. The Scheme has complied with the requirements regarding the nature and categories of assets as prescribed by Section 35 and Regulation 30 of the Act.

Approximately 92% of the Scheme's insurance liabilities are settled within four months after the claim was incurred and the remaining liability is settled within eight months.

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

As at 31 December 2012	Less than 1 year R	Between 1 and 2 years R	Between 2 and 5 years R
Medical savings account trust liability (Note 7)	106 776 976	-	-
Trade and other payables (Note 8)	15 337 122	-	-
Outstanding risk claims provision (Note 6)	32 500 000	-	-

As at 31 December 2011	Less than 1 year R	Between 1 and 2 years R	Between 2 and 5 years R
Medical savings account trust liability (Note 7)	91 131 049	-	-
Trade and other payables (Note 8)	14 639 200	-	-
Outstanding risk claims provision (Note 6)	23 500 000	-	-

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 managers in accordance with the mandate set by the Scheme.

26. 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 2012	Up to 1 month R	More than 1 month R	Non-interest bearing R	Total R
Call accounts and fixed deposits	135 650 000	242 000 000	-	377 650 000
Current accounts	45 370 069	-	-	45 370 069
Personal medical savings account trust funds	98 591 353	-	-	98 591 353
Total	**279 611 422**	**242 000 000**	**-**	**521 611 422**

As at 31 December 2011	Up to 1 month R	More than 1 month R	Non-interest bearing R	Total R
Call accounts and fixed deposits	92 000 000	299 000 000	-	391 000 000
Investments held at fair value through profit or loss	-	-	1 985 059	1 985 059
Current accounts	37 192 519	-	-	37 192 519
Total	**129 192 519**	**299 000 000**	**1 985 059**	**430 177 578**

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

	2012 %	2011 %
Cash and cash equivalents	5.73%	5.96%

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 2011.

	Surplus or deficit		Accumulated funds	
	100bp Increase R	100bp Decrease R	100bp Increase R	100bp Decrease R
31 December 2012				
Cash and cash equivalents	5 216 114	(5 216 114)	5 216 114	(5 216 114)
Sensitivity (net)	**5 216 114**	**(5 216 114)**	**5 216 114**	**(5 216 114)**
31 December 2011				
Cash and cash equivalents	4 281 925	(4 281 925)	4 281 925	(4 281 925)
Sensitivity (net)	**4 281 925**	**(4 281 925)**	**4 281 925**	**(4 281 925)**

26. 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 2012 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.

	2012 R	2011 R
Total members' funds per statement of financial position	417 051 117	341 178 683
Less: cumulative unrealised net gains on remeasurement to fair value of investments	-	(1 081 207)
Accumulated funds per Regulation 29	**417 051 117**	**340 097 476**
Annualised gross contributions (Note 10)	**1 444 890 836**	**1 187 875 634**
Solvency margin **= Accumulated funds/annualised gross contribution income x 100%**	**28.86%**	**28.63%**

The required solvency has been maintained throughout the year.

26. 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.

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

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 investments held at fair value through profit or loss (sold during 2012) and cash and cash equivalents.

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

	2012 R	2011 R
Call accounts	93 650 000	92 000 000
Fixed deposits	284 000 000	299 000 000
Current, call and short term deposits	45 370 069	37 192 519
Medical savings account trust funds	98 591 353	-
Total	**521 611 422**	**428 192 519**

Investments held at fair value through profit or loss
Investments held at fair value through profit or loss comprise the following:

	2012 R	2011 R
Listed equities	-	1 985 059
Total investments	**-**	**1 985 059**

26. 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.

	Other financial liabilities	Loans and receivables	Insurance receivables and payables	Investments held at fair value through profit and loss	Total carrying amount
	R	R	R	R	R
For the year ended 31 December 2012					
Cash and cash equivalents	-	423 020 069	-	-	**423 020 069**
Personal medical savings account trust funds	-	98 591 353	-	-	**98 591 353**
Investments held at fair value through profit or loss	-	-	-	-	**-**
Trade and other receivables	-	6 968 663	64 727 756	-	**71 696 419**
Personal medical savings accounts	(106 776 976)	-	-	-	**(106 776 976)**
Trade and other payables	(15 337 122)	-	(18 632 971)	-	**(33 970 093)**
	(122 114 098)	528 580 085	46 094 785	-	**452 560 772**
For the year ended 31 December 2011					
Cash and cash equivalents	-	428 192 519	-	-	**428 192 519**
Personal medical savings account trust funds	-	-	-	-	**-**
Investments held at fair value through profit or loss				1 985 059	**1 985 059**
Trade and other receivables	-	6 896 452	50 769 873	-	**57 666 325**
Personal medical savings accounts	(91 131 049)	-	-	-	**(91 131 049)**
Trade and other payables	(14 639 200)	-	(15 379 607)	-	**(30 018 807)**
	(105 770 249)	435 088 971	35 390 266	1 985 059	**366 694 047**

27. 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 6.

Risk transfer arrangements
The critical estimates and judgements relating to risk transfer arrangements are set out under note 14.

Impairment of assets
The critical estimates and judgements relating to the impairment of assets are set out under note 1.7.

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.

28. NON-COMPLIANCE MATTERS

28.1 Sustainability of benefit option

In terms of Section 33(2) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound.

At 31 December 2012 one of the Scheme's benefit options did not comply with Section 33(2):

Option	2012 Net healthcare result R	2011 Net healthcare result R
LA Comprehensive	(2 006 241)	(7 347 959)

The Board of Trustees addresses the sustainability of all options during the annual strategic conference and subsequent budgetary process. Fair consideration was given to the affordability of the benefits in this Option for its registered beneficiaries, by taking into account investment income. The Board of Trustees is also comfortable with the continuous decrease in the annual operating deficit on the LA Comprehensive option.

28.2 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 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.

The procedures that the Scheme follows regarding these contributions are set out in Note 26.

29. COMMITMENTS AND OTHER CONTINGENT LIABILITIES

The Scheme does not have any commitments or contingent liabilities outstanding at 31 December 2012.

LA HEALTH MEDICAL SCHEME
(Registration no. 1145)

REPORT OF THE BOARD OF TRUSTEES

The Board of Trustees hereby presents its report for the year ended 31 December 2012.

1. DESCRIPTION OF MEDICAL SCHEME

1.1 Terms of registration

LA Health Medical 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 LA Health Medical Scheme

The Scheme offers five benefit options to members within local government.
LA Core;
LA Comprehensive;
LA Focus;
LA Active; and
LA KeyPlus.

1.3 Medical Savings Account trust liability

On all benefit options except LA KeyPlus, members pay an agreed sum, less than or limited to 25% of their gross contributions, into a medical savings account (MSA). The full annual amount is made available for use on 1 January of each year although members only contribute towards this monthly. The MSA provides members with adequate cover for medical expenses they may incur outside of hospital, up to a prescribed limit, for different types of medical treatment such as dental care, optometry and acute medicine.

In line with the requirement of Council Circulars 38/2011 and 5/2012, the Scheme opened a separate bank account during 2012 for the managing of the personal medical savings accounts. All interest earned in this bank account is allocated to members with positive balances. This account currently earns interest at a rate of 4,5%. Previously, per the rules of the Scheme, no interest was paid.

The balance remaining in the MSA at the end of each calendar year is carried over to the following year for the benefit of the member.

The MSA is reflected as a current liability in the financial statements and is repayable in terms of Regulation 10 of the Act.

Investment of MSA trust monies managed by the Scheme on behalf of its members, has been separately disclosed as a current asset in the financial statements.

1.4 Risk transfer arrangements

The Scheme entered into three risk transfer arrangements. Centre for Diabetes and Endocrinology to protect the medical scheme from any unusual exposure to high cost incidence claims for its members on the LA Comprehensive and LA Core options. Iso Leso (Pty) Ltd and Dental Risk Company to manage some of the primary care cost on the LA KeyPlus option.

2. MANAGEMENT

2.1 Board of Trustees in office during the year under review

Mr GJ Beukman	Elected (Chairperson)
Mr HA Deysel	Elected (Deputy Chairperson)
Mr RC Barnard	Elected
Mr A Bennett	Elected
Mr R Bosman	Elected
Mr DL Carstens	Appointed (End of term June 2012), Elected July 2012
Mr R de Bruyn	Appointed (End of term June 2012), Elected July 2012
Mr R Denge	Appointed (End of term June 2012), Elected July 2012
Mr R Field	Elected
Mr F Hoffman	Elected
Mr SA Kaunda	Appointed (End of term June 2012), Reappointed November 2012
Mr A Lemmer	Elected
Mr P Louwrens	Elected July 2012
Mr ME Mattheus	Elected
Mr MCT Schultz	Elected
Ms I Seymour	Elected July 2012, resigned October 2012
Ms L Sibiya	Appointed (End of term June 2012)
Mr A Vorster	Elected July 2012

2.2 Principal Officer

AM de Koker
7th Floor, East Tower Offices
Century City Boulevard
Century City
7435

2.3 Registered office address and postal address

7th Floor, East Tower Offices	Postnet Suite 116
Century City Boulevard	Private Bag X19
Century City	Milnerton
7435	7435

2.4 Scheme's administrator during the year

Discovery Health (Pty) Ltd

155 West Street	PO Box 652509
Sandton	Benmore
2146	2010

2.5 Principal Banker

First National Bank
PO Box 1153
Johannesburg
2000

2.6 Auditor

KPMG Inc.

KPMG Crescent	Private Bag 9
85 Empire Road	Parkview
Parktown	2122
2193	

3. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

3.1 Operational statistics

2012	LA CORE	LA COMP *	LA FOCUS	LA ACTIVE	LA KEYPLUS	TOTAL
Number of members at end of the accounting period	5 967	2 848	4 756	23 546	5 583	42 700
Average number of members for the accounting period	6 057	2 915	4 532	22 720	5 228	41 452
Average number of beneficiaries for the accounting period	10 106	4 602	11 130	58 781	12 584	97 203
Beneficiaries per member	1.67	1.58	2.46	2.59	2.41	2.34
Average age per beneficiary	59.21	58.93	27.76	28.19	26.62	32.37
Pensioner ratio (beneficiaries >65 years old)	48.70%	49.98%	3.59%	3.42%	1.24%	9.70%
Average risk contribution per member per month	R 3 628.96	R 4 217.12	R 1 617.37	R 2 239.19	R 1 279.86	R 2 392.38
Average risk contribution per beneficiary per month	R 2 175.01	R 2 671.21	R 658.57	R 865.49	R 531.71	R 1 020.22
Average relevant healthcare expenditure per member per month	R 3 116.35	R 3 894.80	R 1 259.85	R 1 724.56	R 968.79	R 1 934.42
Average relevant healthcare expenditure per beneficiary per month	R 1 867.78	R 2 467.04	R 513.00	R 666.57	R 402.48	R 824.93
Average administration fee per member per month	R 218.34	R 218.34	R 218.33	R 218.33	R 108.07	R 204.42
Average sundry expense per member per month	R 30.05	R 30.05	R 30.05	R 30.05	R 30.05	R 30.05
Average broker fees per member per month	R 42.22	R 76.35	R 53.53	R 65.46	R 40.24	R 58.34
Average managed care: management services per member per month	R 54.91	R 54.94	R 54.83	R 54.80	R 54.26	R 54.76
Relevant healthcare expenditure as a percentage of risk contributions	85.9%	92.4%	77.9%	77.0%	75.7%	80.9%
Non-healthcare expenditure as a percentage of risk contributions	9.5%	9.0%	22.1%	16.5%	18.2%	14.5%
Return on investments as a percentage of investments						5.73%
Accumulated funds per member at 31 December						R 9 767
Average savings per member at 31 December						R 2 948

* - LA Comprehensive

3. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

3.1 Operational statistics

2011	LA CORE	LA COMP *	LA FOCUS	LA ACTIVE	LA KEYPLUS	TOTAL
Number of members at end of the accounting period	6 074	3 069	4 099	19 227	4 783	37 252
Average number of members for the accounting period	6 189	3 127	3 944	18 424	4 404	36 088
Average number of beneficiaries for the accounting period	10 420	5 012	9 601	47 308	10 656	82 997
Beneficiaries per member	1.68	1.60	2.43	2.57	2.42	2.30
Average age per beneficiary	57.53	57.55	27.32	27.45	25.74	32.48
Pensioner ratio (beneficiaries >65 years old)	44.70%	46.58%	3.63%	3.36%	1.19%	10.45%
Average risk contribution per member per month	R 3 355.85	R 3 705.52	R 1 490.51	R 2 056.95	R 1 237.29	R 2 260.62
Average risk contribution per beneficiary per month	R 1 993.22	R 2 311.88	R 612.29	R 801.08	R 511.36	R 982.94
Average relevant healthcare expenditure per member per month	R 2 762.85	R 3 569.08	R 1 040.09	R 1 621.46	R 916.78	R 1 836.43
Average relevant healthcare expenditure per beneficiary per month	R 1 641.00	R 2 226.76	R 427.26	R 631.47	R 378.90	R 798.50
Average administration fee per member per month	R 207.24	R 207.26	R 207.23	R 207.21	R 102.24	R 194.41
Average sundry expense per member per month	R 27.23	R 27.23	R 27.23	R 27.23	R 27.23	R 27.23
Average broker fees per member per month	R 45.94	R 45.65	R 51.88	R 55.70	R 49.59	R 51.99
Average managed care: management services per member per month	R 52.11	R 52.11	R 53.81	R 51.74	R 51.41	R 52.02
Relevant healthcare expenditure as a percentage of risk contributions	82.3%	96.3%	69.8%	78.8%	74.1%	81.2%
Non-healthcare expenditure as a percentage of risk contributions	9.9%	9.0%	22.8%	16.6%	18.6%	14.4%
Return on investments as a percentage of investments						5.96%
Accumulated funds per member at 31 December						R 9 454
Average savings per member at 31 December	R 6 087	R 3 845	R 2 448	R 1 675	R 0	R 2 876

* - LA Comprehensive

3.2 Results of operations

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

3.3 Reserve accounts

There are no reserve accounts.

3.4 Outstanding risk claims

Movements on the outstanding risk 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.

3.5 Accumulated funds ratio

	2012 R	2011 R
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per statement of financial position	417 051 117	341 178 683
Less: Cumulative net gains on re-measurement to fair value of financial instruments	-	(1 081 207)
Accumulated funds per Regulation 29	**417 051 117**	**340 097 476**
Gross contribution income (Note 10)	**1 444 890 836**	**1 187 875 634**
Accumulated funds ratio per Regulation 29	**28.86%**	**28.63%**

4. INVESTMENT AND FIXED ASSET POLICY

The Board of Trustees continue to invest excess funds in line with the requirements of Annexure B of the Regulations of the Act. There has been no change in the policy during the current year.

5. 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 five members of which two are members of the Board of Trustees. The majority of the members, including the chairperson, are not officers of the Scheme or its third party administrator. The Committee met five times during 2012.

The Chairperson of the Board, the external auditors and the internal auditors of the Administrator are invited to attend all Audit Committee meetings and have unrestricted access to the Chairperson of the Committee.

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

6. NON-COMPLIANCE MATTERS

6.1. Sustainability of benefit option

In terms of Section 33(2) of the Act, each benefit option shall be self-sustaining in terms of membership and financial performance and be financially sound.

At 31 December 2012 one of the Scheme's benefit options did not comply with Section 33(2):

Option	Net healthcare deficit
LA Comprehensive	R2 006 241

The Board of Trustees addresses the sustainability of all options during the annual strategic conference and subsequent budgetary process. Fair consideration was given to the affordability of the benefits in this Option for its registered beneficiaries, by taking into account investment income. The Board of Trustees is also comfortable with the continuous decrease in the annual operating deficit on the LA Comprehensive option.

6.2. 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 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.

The procedures that the Scheme follows regarding these contributions are set out in Note 26.

7. BOARD OF TRUSTEE, SUB-COMMITTEE AND AUDIT COMMITTEE MEETING ATTENDANCE REGISTER

TRUSTEE MEMBER	Board of Trustees							Audit Committee				Special Finance Committee	Combined Finance & Audit	Special Marketing Committee		Product and Pricing Task Team			Strategy conference	Risk assessment workshop	Annual General Meeting
	29-02-2012	12-04-2012	18-05-2012	20-06-2012	23-08-2012	18-10-2012	29-11-2012	11-04-2012	19-07-2012	17-10-2012	28-11-2012	11-04-2012	22-08-2012	16-03-2012	18-09-2012	15-03-2012	11-04-2012	18-07-2012	16-05-2012	17-10-2012	20-06-2012
R Barnard	✓	✓	✓	✓	✓	✓	✓	-	-	-	-	✓	✓	-	✓	-	✓	-	✓	✓	✓
A Bennett *	✓	✓	✓	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	-	✓	✓	✓	✓	✓	✗
GJ Beukman	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	✓	✓	✓	✓	-	✓	✓	✓	✓	✓
R Bosman	✓	✓	✓	✓	✓	✓	✓	-	-	-	-	-	-	✓	✓	-	-	-	✓	✓	✓
DL Carstens	✓	✓	✓	✓	✓	✓	✓	-	-	-	-	-	-	✓	-	-	-	-	✓	✓	✓
R de Bruyn	✓	✓	✓	✓	✓	✓	✓	-	-	-	-	-	-	-	✓	-	-	-	✓	✓	✓
R Denge	✓	✓	✓	✓	✓	✓	✗	✓	-	✓	-	✓	✓	-	-	-	✓	-	✓	✓	✓
HA Deysel	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
R Field	✓	✓	✓	✗	✓	✗	✓	-	-	✓	-	-	-	✓	✓	✓	-	✓	✓	✓	✗
F Hoffman	✓	✓	✓	✓	✓	✓	✓	-	-	-	-	-	-	✓	✓	✓	✓	✓	✓	✓	✓
SA Kaunda	✓	✓	✓	✓	-	-	✓	✓	-	-	-	✓	-	-	-	-	✓	-	✓	-	✓
A Lemmer	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	✓	✓	.	-	✓	✓	✓	✓	✓	✓
P Louwrens	-	-	-	-	✓	✓	✓	-	-	✓	-	-	✓	-	-	-	-	-	-	✓	✓
ME Mattheus	✓	✓	✓	✓	✓	✓	✓	-	-	-	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓
MCT Schultz	✓	✓	✓	✓	✓	✓	✗	✓	-	✓	-	✓	✓	-	-	✓	✓	✓	✓	✓	✓
I Seymour	-	-	-	-	✗	✗	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
L Sibiya	✓	✓	✗	✓	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	✓
A Vorster *	✓	✓	-	-	✓	✓	✓	✓	✓	✓	✓	-	✓	-	✓	-	-	-	✓	✓	✓
Audit Committee																					
J Davis	-	-	-	-	✓	✓	✓	✓	✓	✓	✓	✗	✓	-	-	-	-	-	-	✓	-
N Chowthee	-	-	-	-	-	-	-	✓	✓	✓	✓	✗	✓	-	-	-	-	-	-	✓	-

* Trustee Audit Committee members