

ANNUAL FINANCIAL STATEMENTS

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STATEMENT OF RESPONSIBILITY AND ANNUAL FINANCIAL STATEMENTS

The Board of Trustees is responsible for the preparation, integrity and fair presentation of the GEMS integrated annual report and financial statements. The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and include amounts based on judgments and estimates by management.

Accounting policies applied by the Scheme are informed and updated, when required, based on CMS circulars, the Annual Medical Schemes Accounting Guide issued by SAICA and updates on the latest IFRS developments. The trustees consider that, in preparing the annual financial statements, they have used the most appropriate accounting policies, consistently applied these policies and supported the application of these policies with reasonable and prudent judgements and estimates.

The Board adopted the King Report on Corporate Governance 2016 (King IV) and seeks to apply the recommended practices thereof where appropriate to the business of a medical scheme and its trustees.

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

The trustees ensure that adequate accounting records are maintained and that they disclose with reasonable accuracy the financial position of the Scheme, which enables the trustees to ensure that the annual financial statements comply with legislation.

The trustees are also responsible for internal controls that enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining an effective system of risk management.

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

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

The Scheme's external auditor, Deloitte and OMA Chartered Accountants JV, is responsible for auditing the statements in terms of International Auditing Standards and its unqualified report is presented with the Scheme's annual financial statements.

The annual financial statements for 2020 were approved by the Board of Trustees on 22 April 2021 and are signed on its behalf by:



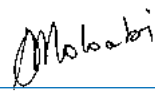
Dr SM Hlatshwayo

Chairperson



Mr ME Phophi

Deputy Chairperson



Dr BOS Moloabi

Principal Officer

22 April 2021

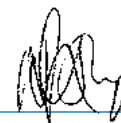
AUDITED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2020



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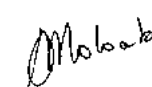
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Chairperson



Deputy Chairperson



Principal Officer

The financial information below has been extracted from and is in agreement with the audited annual financial statements of the Scheme for the 2020 financial year. The full audited annual financial statements can be found at (website link plus call centre number)

Independent Auditor's Report

To the Members of the Government Employees Medical Scheme

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Government Employees Medical Scheme (the Scheme), set out on pages 8 to 69, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in members' funds and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Government Employees Medical Scheme as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
<p>Outstanding claim provision (IBNR)</p> <p>The outstanding risk claims provision (IBNR) comprise provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred but not yet reported at the reporting date.</p> <p>The determination of the IBNR requires the Scheme's Trustees to make assumptions in the valuation thereof, which is determined with reference to an estimation of the ultimate cost of settling all claims incurred but not yet reported at the Statement of Financial Position date.</p> <p>The Trustees make use of an independent actuarial specialists for the estimation of the IBNR.</p> <p>The IBNR calculation is based on the following of factors:</p> <ul style="list-style-type: none"> • Previous experience in claims patterns; • Claims settlement patterns; • Changes in the nature and number of members according to gender and age; • Trends in claims frequency; • Changes in the claims processing cycle; and • Variations in the nature and average cost per claim. <p>Certain of the above-mentioned factors require judgment and assumptions to be made by the Schemes Trustees and therefore we identified the valuation of the IBNR as a key audit matter.</p> <p>The IBNR is disclosed in note 11.</p>	<p>In evaluating the valuation of the IBNR, we performed various procedures including the following:</p> <ul style="list-style-type: none"> • Testing the Scheme's controls relating to the preparation of the IBNR calculation; • Testing the integrity of the information used in the calculation of the IBNR by performing substantive procedures. • With the assistance of our internal actuarial specialists we performed an independent calculation of the estimate of the provision using historical claims data and trends, and using this estimate as a basis of assessing the reasonableness of the Trustee's estimate of the provision, including testing managements assumptions of Covid-related claims ; • Performing a retrospective review of the IBNR raised in the 2019 financial year based on actual claims paid in 2020 to verify the assumptions applied to determine the IBNR are reasonable. • Performing tests of detail on the current year IBNR including testing actual claims experienced after year end and to as close as possible to audit completion date; • With the assistance of our actuarial specialists, we assessed management's response to the data impacts of Covid-19 on the estimation of the IBNR; and • Assessing the presentation and disclosure in respect of the IBNR and considered whether the disclosures reflected the risks inherent in the accounting for the IBNR. <p>The assumptions applied in the IBNR are appropriate and we are satisfied that the movement of the IBNR in the statement of comprehensive income is appropriate.</p> <p>The related disclosure of the IBNR and assumptions are appropriate.</p>

Other Information

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

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

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

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

Responsibilities of the Scheme's Trustees for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Scheme's Trustees.

- Conclude on the appropriateness of the Scheme's Trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

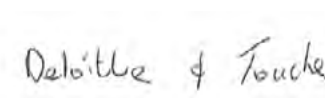
Non-compliance with the Medical Schemes Act of South Africa

As required by the Council for Medical Schemes, we report that there are no material instances of non-compliance with the requirements of the Medical Schemes Act of South Africa, that have come to our attention during our audit.

Audit tenure

In terms of CMS Circular 38 of 2018 Audit tenure, we report that Deloitte has been the auditor of the Government Employees Medical Scheme for 5 years.

The engagement partner, Dinesh Munu, has been responsible for the Government Employees Medical Scheme's audit for five years.



Deloitte & Touche
Registered Auditor

Per: Dinesh Munu
Partner

23 April 2021

Statement of Financial Position as at December 31, 2020

	Note(s)	2020 (R'000)	2019 (R'000)
ASSETS			
Non-Current Assets			
Property and Equipment	3	299 130	240 231
Right-of-use assets	4	8 286	7 639
Intangible assets	5	6 687	13 373
Financial assets at fair value through profit or loss	6	6 188 873	4 654 020
		6 502 976	4 915 263
Current Assets			
Financial assets at fair value through profit or loss	6	13 228 748	8 317 926
Trade and other receivables	7	338 571	335 754
Cash and cash equivalents: Scheme cash invested	8	2 765 607	2 449 761
		16 332 926	11 103 441
Total Assets		22 835 902	16 018 704
FUNDS AND LIABILITIES			
MEMBER'S FUNDS			
Accumulated Funds		18 620 653	13 049 975
FUNDS AND LIABILITIES			
Non-Current Liabilities			
Lease liabilities	4	2 791	3 577
Current Liabilities			
Personal medical savings account liability	9	1 263 247	1 010 902
Lease liabilities	4	6 050	4 582
Trade and other payables	10	928 772	646 588
Outstanding risk claims provision	11	2 014 389	1 303 080
		4 212 458	2 965 152
Total Liabilities		4 215 249	2 968 729
Member Funds and Liabilities		22 835 902	16 018 704

Statement of Comprehensive Income as at December 31, 2020

	Note(s)	2020 (R'000)	2019 (R'000)
Risk contribution income	13	44 004 872	40 273 184
Relevant healthcare expenditure		(37 297 957)	(35 763 229)
Risk claims incurred	14	(36 416 134)	(34 945 266)
Accredited managed healthcare services	15	(881 823)	(817 963)
Gross healthcare result		6 706 915	4 509 955
Administration expenditure	16	(1 855 877)	(1 714 456)
Marketing services		(127 374)	(125 855)
Impairment losses on healthcare receivables	18	(41 262)	(36 078)
Net healthcare result		4 682 402	2 633 566
Investment income	19	902 284	941 276
Dividends received		74 164	49 429
Interest received on financial assets at fair value through profit or loss		864 383	833 486
Net realised gain / (loss) on financial assets at fair value through profit or loss		(68 090)	71 086
Net unrealised gain / (loss) on financial assets at fair value through profit or loss		(10 651)	(62 044)
Interest received on cash and cash equivalents		42 478	49 319
Other income		29 189	31 525
Sundry income		29 189	31 525
Other expenses		(43 196)	(32 285)
Investment management fees		(42 344)	(31 369)
Finance costs		(852)	(916)
Total comprehensive surplus for the year		5 570 679	3 574 082

Statement of Changes in Equity

as at December 31, 2020

	Accumulated Funds (R'000)	Mem'r Funds (R'000)
Balance at January 1, 2019	9 475 893	9 475 893
Total comprehensive surplus for the year	3 574 082	3 574 082
Balance at January 1, 2020	13 049 974	13 049 974
Total comprehensive surplus for the year	5 570 679	5 570 679
Balance at December 31, 2020	18 620 653	18 620 653

Statement of Cash Flows

as at December 31, 2020

Note(s)	2020 (R'000)	2019 (R'000)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from members	45 318 421	41 564 645
Cash paid to suppliers, members and employees	(40 283 236)	(39 345 856)
Cash generated from operations	5 035 185	2 218 789
Interest expense	(852)	(849)
Net cash inflow from operating activities	5 034 333	2 217 940
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(89 812)	(7 775)
Sale of property and equipment	1	84
Net purchase of financial assets	(5 524 764)	(3 132 708)
Investment income	902 284	941 276
Interest received on Scheme cash invested	42 478	49 319
Income earned on financial assets at fair value through profit or loss	859 806	891 957
Net cash from investing activities	(4 712 291)	(2 199 123)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on lease liabilities	(6 196)	(4 257)
Total cash movement for the year	315 846	14 560
Cash at the beginning of the year	2 449 761	2 435 201
Total cash at end of the year	2 765 607	2 449 761

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

1. Significant accounting policies

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

1.1 Statement of compliance

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

1.2 Basis of preparation

The financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these financial statements.

These financial statements comply with the requirements of the 2020 SAICA Medical Scheme Accounting Guide as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Rands, which is the Scheme's functional currency.

These accounting policies are consistent with the previous period.

1.3 Property and Equipment

Property and equipment is measured at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged on the straight line basis over the estimated useful lives of assets after taking into consideration an asset's residual value. Land will be carried at cost and not depreciated.

The useful lives of items of property and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Infinite Useful Life
Buildings	Straight line	20 years
Furniture and fixtures	Straight line	5 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
Computer equipment and software	Straight line	3 years
Kitchen equipment	Straight line	3 years
Leasehold improvements	Straight line	Over the unexpired period of the applicable lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

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

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

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

An item of asset is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of asset, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in surplus or deficit when the item is derecognised.

1.4 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the scheme; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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

Notes to the Audited Annual Financial Statements

as at Decemr 31, 2020

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

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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

Item	Useful life
Software	4 years

1.5 Financial instruments

Classification

The Scheme classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were acquired and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Initial recognition and measurement

Financial instruments are recognised initially when the Scheme becomes a party to the contractual provisions of the instruments.

The Scheme classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through profit or loss are recognised in the Statement of Comprehensive Income.

Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Notes to the Audited Annual Financial Statements

as at Decemr 31, 2020

Dividend income is recognised in profit or loss as part of other income when the scheme's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the scheme has transferred substantially all risks and rewards of ownership.

Impairment of financial assets

At each reporting date the scheme assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the scheme, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity as a reclassification adjustment to other comprehensive income and recognised in profit or loss.

Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial instruments designated as at fair value through profit or loss

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

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

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

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

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

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise deposits held on call with banks, cash on hand and other short term liquid investments. These deposits are readily convertible, to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value. Cash and cash equivalents are classified as loans and receivables.

1.6 Leases

The Scheme leases various properties and has implemented a single accounting model, requiring lessees to recognise assets and liabilities for all leases excluding exceptions listed in the IFRS 16 standard. The Scheme elected to apply exemptions for short term leases in relation to properties and for leases where the underlying asset is of low value.

The Scheme recognises a right-of-use asset and a lease liability at the commencement date of the lease contract for all leases conveying the right to control the use of an identified assets for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets are initially measured at cost, which comprises:

- any lease payments made at or before the commencement date, less any lease incentives,
- any initial direct costs incurred by the lessee,
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying assets or restoring the site on which the assets are located,
- the amount of the initial measurement of the lease liability.

Subsequently the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Depreciation is calculated using the straight-line method over the estimated useful lives, as follows:

- Leased Properties - over the remaining lease agreement period.
- Leases are recognised, measured and presented in line with IFRS 16 'Leases'.

1.7 Insurance contracts

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

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

1.8 Risk claims incurred

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

Net risk claims incurred comprise of the following:

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

1.9 Impairment of assets

The Scheme assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Scheme estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the Scheme also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.10 Liabilities and related assets under liability adequacy test

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

1.11 Outstanding risk claims provision

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

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

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

1.12 Risk Contribution Income

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

1.13 Employee benefits

Short-term employee benefits

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

Post employment benefits

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

1.14 Provisions and contingencies

Provisions are recognised when:

- the Scheme has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Provisions are not recognised for future operating gains.

The expected future cash flows are discounted and reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

1.15 Accredited managed healthcare services

These expenses represent expenditure and amounts paid or payable to accredited managed care organisations contracted by the Scheme for management of the utilisation costs and quality of healthcare services supplied to the Scheme and its members. These fees are expensed as incurred. The services provided by these organisations include hospital pre-authorisation, disease management programmes, optical and dental managed care services and pharmaceutical benefit and network management.

1.16 Investment Income

The Scheme's investment income includes:

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

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

1.17 Unclaimed benefits

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

1.18 Impairment losses

Non-derivative financial assets

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

Financial assets measured at amortised cost: Loans and receivables

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

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

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

Non-financial assets

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

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

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

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

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

1.19 Allocation of revenue and expenditure to benefit options

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

The following items are directly allocated to benefit options:

- Risk contributions;
- Risk claims incurred;

The remaining items are apportioned based on the number of members on each option:

- Other administration expenditure;
- Other income
- Other expenditure;
- Managed care services; and
- Administration fees.

1.20 Road Accident Fund (RAF) Recoveries

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

1.21 Relevant healthcare expenditure

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

1.22 Personal Medical Savings Account

The personal medical savings account, which is managed by the Scheme on behalf of its members, represents savings contributions (which are a deposit component of the insurance contracts), 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 measured at fair value through profit or loss and subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period. The insurance component is recognised in accordance with IFRS 4, Insurance Contracts.

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

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

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

1.23 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes.

- restricted activities
- a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches)

The scheme has determined that some of its investments in pooled funds and collective investment schemes ("funds") are investments in unconsolidated structured entities. The scheme invests in these funds, whose objectives range from achieving medium- to long-term capital growth and whose investment strategy do not include the use of leverage. The funds are managed by unrelated asset managers and apply various investment strategies to accomplish their respective investment objectives.

The change in fair value of each fund is included in the statement of comprehensive income in 'Net gains/(losses) on financial instruments held at fair value through profit or loss'.

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

2. NEW STANDARDS AND INTERPRETATIONS

2.1 Standards and interpretations not yet effective

The following new standards and interpretations have been published and not yet effective for the current financial year. The Scheme has not opted for an early adoption of the new standards and will be implemented in later periods as indicated below.

The aggregate impact of the initial application of the statements and interpretations on the Scheme's financial statements is expected to be as follows:

IFRS 17 Insurance Contracts

IFRS 17 will impact the measurement of the contracts with members in the scheme's financial statements. The scheme will qualify for the premium allocation approach which requires the scheme to recognise a liability for remaining coverage (with reference to the premiums received) and a liability for incurred claims (calculated as the expected cash outflows and a risk adjustment). The scheme expects that the boundary of the contracts with members will be one year. The scheme will be required to assess for onerous contracts at the point members elect the benefit option for the following year. IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS. This standard replaces IFRS 4 – Insurance contracts.

The effective date of the standard is for years beginning on or after 1 January 2023.

The scheme will adopt the standard for the first time in the 2023 annual financial statements.

Classification of Liabilities as Current or Non-Current - Amendment to IAS 1

The amendment changes the requirements to classify a liability as current or non-current. If an entity has the right at the end of the reporting period, to defer settlement of a liability for at least twelve months after the reporting period, then the liability is classified as non-current.

If this right is subject to conditions imposed on the scheme, then the right only exists, if, at the end of the reporting period, the entity has complied with those conditions.

In addition, the classification is not affected by the likelihood that the entity will exercise its right to defer settlement. Therefore, if the right exists, the liability is classified as non-current even if management intends or expects to settle the liability within twelve months of the reporting period. Additional disclosures would be required in such circumstances.

The effective date of the amendment is for years beginning on or after 1 January 2023.

The scheme expects to adopt the amendment for the first time in the 2023 audited annual financial statements.

It is unlikely that the amendment will have a material impact on the scheme's audited annual financial statements.

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

2. NEW STANDARDS AND INTERPRETATIONS (continued)

IFRS 9 Financial Instruments

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

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Scheme will not be adopting the standard for the first annual period after mandatory effective date, as the Scheme have opted to defer implementation. The mandatory effective date was 01 January 2018.

As per the option in terms of 39B of IFRS 4 which provides a temporary exemption that permits insurers to apply IAS 39 Financial Instruments: Recognition and Measurement rather IFRS9 Financial Instruments for annual periods beginning before 1 January 2023.

Management has assessed that the Scheme meets the criteria as stated in IFRS 4 and therefore opted to utilise temporary exemption to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

The Scheme applied paragraph (39B) of IFRS 4 to derive a conclusion that it qualifies for the temporary exemption from IFRS 9. The temporary exemption from IFRS 9 is applicable if, and only if:

- the Scheme has not previously applied IFRS 9; and
- the activities of the Scheme are predominantly connected with insurance, which is assessed on the basis of the following two criteria:
- the Scheme has a significant amount of liabilities arising from contracts within the scope of IFRS 4 due to claims payable to members; and
- the percentage of the Scheme's liabilities connected with in terms of short term medical insurance business relative to all its liabilities meets a specified threshold. The percentage of the Scheme's liabilities connected with insurance relative to its total amount of liabilities are greater than 90% of the total liabilities of the Scheme.

Notes to the Audited Annual Financial Statements as at December 31, 2020

3. PROPERTY AND EQUIPMENT

	2020 R'000			2019 R'000		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	102 743	-	102 743	22 819	-	22 819
Buildings	188 040	(19 845)	168 195	188 040	(10 437)	177 603
Furniture and fixtures	6 951	(3 268)	3 683	6 692	(2 028)	4 664
Motor vehicles	8 808	(7 293)	1 515	8 808	(6 102)	2 706
Office equipment	21 821	(9 736)	12 085	21 501	(5 780)	15 721
IT equipment	30 103	(20 177)	9 926	28 042	(12 538)	15 504
Leasehold improvements	1 256	(1 232)	24	1 260	(1 211)	49
Kitchen Equipment	1 303	(344)	959	1 303	(138)	1 165
Total	361 025	(61 895)	299 130	278 465	(38 234)	240 231

Reconciliation of property and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation	Total
Land	22 819	79 924	-	-	102 743
Buildings	177 603	-	-	(9 408)	168 195
Furniture and fixtures	4 664	259	-	(1 240)	3 683
Motor vehicles	2 706	-	-	(1 191)	1 515
Office equipment	15 721	346	(14)	(3 972)	12 085
IT equipment	15 504	2 242	(17)	(7 803)	9 926
Leasehold improvements	49	-	-	(21)	24
Kitchen Equipment	1 165	-	-	(206)	959
	240 231	82 771	(31)	(23 841)	299 130

Notes to the Audited Annual Financial Statements as at December 31, 2020

3. PROPERTY AND EQUIPMENT (continued)

Reconciliation of property and equipment - 2019

	Opening balance	Additions	Disposals	Depreciation	Total
Land	22 819	-	-	-	22 819
Buildings	185 698	1 252	-	(9 346)	177 603
Furniture and fixtures	6 311	101	(356)	(1 392)	4 664
Motor vehicles	4 248	-	-	(1 542)	2 706
Office equipment	17 292	2 259	(22)	(3 808)	15 721
IT equipment	16 945	4 064	(127)	(5 378)	15 504
Leasehold improvements	791	99	-	(841)	49
Kitchen Equipment	1 303	-	-	(138)	1 165
	255 407	7 775	(505)	(22 445)	240 231

Details of properties

Property 1: Vutomi House ERF 885 Waterkloof Glen Ext.2

- Land purchase price: March 2017
- Carrying amount (building)

	2020 (R'000)	2019 (R'000)
	22 819	22 819
	168 195	177 603
	191 014	200 422

Property 2 Portion 3 of ERF 858 Waterkloof Glen Ext 2

Land purchased by the Scheme for construction of owner occupied property to be used for administration purposes

- Purchase price: 8 June 2020

	79 924	-
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Management assessed indicators of impairment for Land and building held at cost. Management assessed whether the carrying amount of Land and building differs materially from its market value and evaluate whether an independent valuation is required.

Management considered the following observable inputs in the assessment:

- The owner occupied property is situated in a high-end office park with developments currently ongoing.
- The Scheme had just recently purchased 3 983 square meters of land within the same precinct Office Park at its market value amounting to R79 million.
- There has been no indication that market values of other properties within the precinct have declined or properties are sold less than market value.
- The assessment provide evidence that there are no indicators of impairment for land and building.

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

4. RIGHT OF USE OF ASSETS

The scheme leases several assets, including buildings in various provinces with an average lease term of 3 years.

Nature of leasing activities

The Scheme leases buildings for its office spaces. The leased buildings are situated in regional Scheme office across the country. The effective dates for each lease contract is 1 January 2019.

It is not reasonably certain that the renewal option will be exercised as a result of the Scheme strategy relating to the Client Liaison regional offices. The lease renewals are assessed prior to the ending date.

The leases includes non-lease components and provides for the payment by the Scheme of operational costs incurred by the lessor and rates and taxes levied on the lessor. These amounts are determined annually and are recognised as an expense in the period incurred.

Details pertaining to leasing arrangements, where the scheme is lessee are presented below:

The scheme adopted IFRS 16 for the first time in 2019.

Net carrying amounts of right-of-use assets

The carrying amounts of right-of-use assets are as follows:

	2020 (R'000)	2019 (R'000)
Buildings	8 286	7 639

Depreciation recognised on right-of-use assets

Depreciation recognised on each class of right-of-use assets, is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss.

Buildings	6 242	4 710
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Other disclosures

Interest expense on lease liabilities	756	864
Expenses on short term leases included in operating expenses	1 271	1 187

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

4. RIGHT OF USE OF ASSETS (continued)

Lease liabilities

The maturity analysis of lease liabilities is as follows:

	2020 (R'000)	2019 (R'000)
Year 1	6 050	4 582
Year 2	2 791	2 605
Year 3	-	972
	8 841	8 159
Less : finance charges component	(694)	(864)
	8 147	7 295
Non-current liabilities	2 791	3 577
Current liabilities	6 050	4 582
	8 841	8 159

5. INTANGIBLE ASSETS

	2020 R'000			2019 R'000		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	81 087	(74 400)	6 687	81 087	(67 714)	13 373

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software	13 373	(6 687)	6 687

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software, other	26 697	(13 324)	13 373

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 (R'000)	2019 (R'000)
Opening balance	12 971 947	9 014 155
Additions to investments	5 524 764	3 132 708
Realised gains and interest	1 070 670	1 038 560
Unrealised losses	(10 651)	(62 044)
Investment transaction fees*	(654)	(564)
Fair value of investments at year end	19 556 076	13 122 815
Less Accrued interest **	(138 455)	(150 868)
Closing balance of investments	19 417 621	12 971 947

GEMS currently holds investments at fair value through profit or loss under IAS 39 and will continue to recognise investments at fair value through profit or loss when the Scheme adopts IFRS 9.

GEMS holds no debt instruments that will need to be measured at amortised cost.

The adoption of IFRS 9 will not have a financial impact on the values of the scheme investments presented. Refer to note 26 for more details.

Split between non-current and current portions

	2020 (R'000)	2019 (R'000)
Non-current assets	6 188 873	4 654 020
Current assets	13 228 748	8 317 926
	19 417 621	12 971 946

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

** Accrued interest is not capitalised and is included with Accrued Interest on note 7, Trade and other receivables. Financial assets at fair value through profit or loss consist of money market instruments, bonds and equities. Financial assets at fair value through profit or loss are categorised as Levels 1 and 2. Also refer to note 12.

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

7. TRADE AND OTHER RECEIVABLES

	2020 (R'000)	2019 (R'000)
Insurance receivables		
Contributions outstanding	170 274	163 951
Receivables from members and providers	37 799	62 817
Personal medical savings account advances (note 9)	1 206	818
Receivables balance before impairment	209 279	227 586
Less: Balance of allowance for impairment at 31 December	(24 651)	(53 585)
Balance as at 1 January	53 585	138 085
Amount recognised in the Statement of Comprehensive Income	41 262	36 078
Amounts utilised during the period	(70 195)	(120 578)
Total insurance receivables	184 628	174 001
Financial receivables		
Accrued interest	138 455	150 868
Sundry accounts receivable	15 488	10 885
Total financial receivables	153 943	161 753
Total trade and other receivables	338 571	335 754

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

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

For an analysis of the ageing of receivables refer to note 26.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the scheme to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The current provision policy provides for all receivables 120 days and older and the expectation is that the implementation of IFRS 9 will not have a material impact on the numbers reported by the Scheme (refer to note 31 for Covid -19 impact on contribution debt).

Notes to the Audited Annual Financial Statements

as at December 31, 2020

7. TRADE AND OTHER RECEIVABLES (continued)

	2020 (R'000)	2019 (R'000)
Financial Asset - Trade Receivables		
Carrying amount in terms of IAS 39	183 422	173 183
Carrying amount in terms of IFRS 9	188 211	186 750
Difference	(4 789)	(13 567)

8. CASH AND CASH EQUIVALENTS

	2020 (R'000)	2019 (R'000)
Cash and cash equivalents consist of:		
Call accounts	1 899 517	1 556 305
Current accounts	866 090	893 456
Total cash and cash equivalents	2 765 607	2 449 761

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

For an analysis of the average interest rates and maturity refer to note 26.

9. PERSONAL MEDICAL SAVINGS ACCOUNT LIABILITY

	2020 (R'000)	2019 (R'000)
Gross balance of personal medical savings account at beginning of the year	1 010 902	862 691
Less: Advances on personal medical savings account at beginning of year	(818)	(1 186)
Balance of personal medical savings account at the beginning of the year	1 010 084	861 505
Savings account contributions received (note 13)	1 295 242	1 118 739
Transfers from other schemes in terms of Regulation 10(4)	10	90
Refunds on death or resignation in terms of Regulation 10(5)	(92 401)	(77 954)
Claw backs from members	4 743	5 991
Claims paid on behalf of members (note 14)	(955 637)	(898 287)
Personal medical savings account advances (note 7)	1 206	818
Balances due to members on personal medical savings account end of the year	1 263 247	1 010 902

Notes to the Audited Annual Financial Statements

as at December 31, 2020

9. PERSONAL MEDICAL SAVINGS ACCOUNT LIABILITY (continued)

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

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

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

Advances on personal medical savings accounts are funded by the Scheme and are included in trade and other receivables (refer note 7). The Scheme does not charge interest on advances on personal medical savings accounts.

10. TRADE AND OTHER PAYABLES

Insurance liabilities

Claims reported not yet paid

	2020 (R'000)	2019 (R'000)
Balance at the beginning of the year	227 866	134 867
Claims incurred	36 416 134	34 945 266
Claims settled	(36 222 386)	(34 852 267)

Total liabilities arising from insurance contracts

Financial liabilities

	2020 (R'000)	2019 (R'000)
Trade payables	240 123	179 930
Administration fees payable	108 683	100 142
Consulting fees payable	5 947	2 523
Accredited managed healthcare fees due	74 789	69 460
Marketing services	11 396	10 848
Sundry payables and accrued expenses	62 422	53 157
Refunds due to members	832	832
Unallocated deposits	2 966	1 830

Total arising from financial liabilities

Total trade and other payables

	2020 (R'000)	2019 (R'000)
Total liabilities arising from insurance contracts	421 614	227 866
Total arising from financial liabilities	507 158	418 722
Total trade and other payables	928 772	646 588

Notes to the Audited Annual Financial Statements

as at Decemr 31, 2020

10. TRADE AND OTHER PAYABLES (continued)

The carrying amounts of trade payables approximate their fair values due to the short term maturities of these liabilities. Fair value is equal to the face value of the amount invoiced by the creditor. The average payment terms for trade payables are 23.87 days (2019: 22.06 days).

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

11. OUTSTANDING RISK CLAIMS PROVISION

Outstanding risk claims provision

Not covered by risk transfer arrangements

	2020 (R'000)	2019 (R'000)
Not covered by risk transfer arrangements	2 014 389	1 303 080

Reconciliation of outstanding risk claims provision - 2020

	Opening balance	Current year increase in provision	Payments in respect of prior year	Total
Outstanding risk claims provision	1 303 080	1 949 037	(1 237 728)	2 014 389

Reconciliation of outstanding risk claims provision - 2019

	Opening balance	Current year increase in provision	Payments in respect of prior year	Total
Outstanding risk claims provision	1 245 080	1 321 420	(1 263 420)	1 303 080

Analysis of outstanding risk claims provision 2019

Not covered by risk transfer arrangements

	Estimated gross claims	Balance at the end of the year
Not covered by risk transfer arrangements	1 303 080	1 303 080

Notes to the Audited Annual Financial Statements

as at Decemr 31, 2020

11. OUTSTANDING RISK CLAIMS PROVISION (continued)

This provision, known as the outstanding risk claims provision, is determined by way of statistically sound analyses of a number of factors, which include previous experience in claim patterns, claim settlement patterns, changes in the number of members according to gender and age, trends in claim frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim. The provision is net of estimated recoveries from members for co-payments.

The actuaries followed a standard operating procedure governing the calculation of the provision as agreed with the Scheme to ensure consistency in application and interpretation of results. The Scheme does not discount its outstanding risk claims provision since the effect of the time value of money is not considered material. The adequacy of the provision is assessed on a monthly basis, through reviews of past experience and consideration of changes in fundamentals such as claims processing and composition. Furthermore, the Scheme has standardised the provision calculation methodology and any deviation to this is adequately supported. An actuarial peer review of the provision calculation is in place and the Scheme considers the outstanding risk claims provision of R2.014 billion (2019: R1.303 billion) to be adequate. The estimation of the provision gives an indication of whether the Scheme would have adequate assets to cover the potential liability from the Scheme's insurance contracts, as required by accounting policy. The Scheme has sufficient assets to cover any potential liability from insurance contracts as the cash and cash equivalents at year end cover the outstanding risk claims provision more than eleven times.

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

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

The Bornhutter Ferguson method was the preferred actuarial method for estimating the provision for the year under review and the prior year. This method of calculating the outstanding risk claims provision is in line with the standard operating procedure for the Scheme. Refer to note 22 for actuarial assumptions made. (Refer to note 31 for Covid impact)

Notes to the Audited Annual Financial Statements as at December 31, 2020

12. FINANCIAL ASSETS AND LIABILITY BY CATEGORY R'000

2020	Fair value through profit or loss - Held for trading	Loans and receivables	Financial liabilities at amortised cost	Total
Trade and other payables	-	-	(917 204)	(917 204)
Financial assets at fair value through profit or loss	19 417 621	-	-	19 417 621
Personal Medical aid savings account liability	-	-	(1 263 247)	(1 263 247)
Trade and other receivables	-	338 979	-	338 979
Cash and cash receivables	-	2 765 607	-	2 765 607
	19 417 621	3 104 586	(2 180 451)	20 341 756

12. FINANCIAL ASSETS AND LIABILITY BY CATEGORY R'000 (continued)

2019	Fair value through profit or loss - Held for trading	Loans and receivables	Financial liabilities at amortised cost	Total
Trade and other payables	-	-	(647 219)	(647 219)
Financial assets at fair value through profit or loss	12 971 947	-	-	12 971 947
Personal Medical aid savings account liability	-	-	(1 010 902)	(1 010 902)
Trade and other receivables	-	336 693	-	336 693
Cash and cash equivalents	-	2 449 761	-	2 449 761
	12 971 947	2 786 454	(1 658 121)	14 100 280

13. RISK CONTRIBUTION INCOME

	2020 (R'000)	2019 (R'000)
Gross contributions per registered rules	45 300 114	41 391 923
Less: Personal medical savings account contributions received *	(1 295 242)	(1 118 739)
Risk contribution income per statement of comprehensive income	44 004 872	40 273 184

* The savings contributions are received by the Scheme in terms of Regulation 10(1) and the Scheme's registered Rules and held on behalf of its members. Refer to note 9 on how the monies were utilised.

Notes to the Audited Annual Financial Statements as at December 31, 2020

14. RISK CLAIMS INCURRED

Claims incurred

Current year claims per registered rules (including under / over provision of prior year outstanding risk claims provision)

Outstanding risk claims provision as at 31 December

Less:

Claims paid from personal medical savings accounts*

Discount received

Total net claims incurred

	2020 (R'000)	2019 (R'000)
Current year claims per registered rules (including under / over provision of prior year outstanding risk claims provision)	35 365 562	34 545 487
Outstanding risk claims provision as at 31 December	2 014 389	1 303 080
Less: Claims paid from personal medical savings accounts*	(955 637)	(898 287)
Discount received	(8 180)	(5 014)
Total net claims incurred	36 416 134	34 945 266

The claims ratio is calculated as claims incurred expressed as a percentage of risk contributions received. The Scheme recorded a claims ratio for the current financial year of 85% (2019: 89%).

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

15. ACCREDITED MANAGED HEALTHCARE SERVICES

Chronic medicine management services

Dental managed care

HIV management

Managed care services

Pharmaceutical benefit management

	2020 (R'000)	2019 (R'000)
Chronic medicine management services	192 316	179 015
Dental managed care	69 120	64 178
HIV management	48 689	45 641
Managed care services	446 363	412 486
Pharmaceutical benefit management	125 335	116 643
	881 823	817 963

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

Refer to note 24 for more information on managed care agreements.

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

16. ADMINISTRATION EXPENDITURE

	2020 (R'000)	2019 (R'000)
Actuarial fees	15 062	11 689
Administration fees *	1 114 388	1 025 842
Advertising and marketing	32 967	25 521
Auditors remuneration - statutory fees	5 121	1 760
Bank charges	2 831	2 972
Benefit management services (Unaccredited managed care providers)*	154 628	151 578
Board and Independent Committee fees	9 076	6 123
Conferences and workshops	812	4 266
Consulting fees	122 492	107 236
Depreciation and amortisation	36 770	40 478
Employee costs***	264 858	228 093
Legal expenses	13 700	10 735
Loss on disposal of assets	29	458
Motor vehicle expenses	313	1 429
Office supplies	6 613	9 577
Other expenses	377	4 839
Practice Code Numbering System (PCNS) fees and CMS levies	34 012	32 740
Principal Officer's fees **	9 128	4 656
Rental paid	1 271	1 186
Telephone and fax	1 098	992
Travel and accommodation	27 299	38 071
Trustees' and independent committee members' training	136	323
Trustees' and independent committee members' travel and accommodation	189	1 430
Water and electricity	2 707	2 462
	1 855 877	1 714 456

* The increase in administration fees and benefit management services due to the growth on membership of the Scheme.

** The Principal officer fees increased due to the final payments made to the exiting Principal officer.

*** Employee costs went up due to the increase in personnel at Gems in line with the strategy of the Scheme.

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

17. TRUSTEES' AND INDEPENDENT COMMITTEE MEMBERS' REMUNERATION

Board of Trustees' remuneration

2020	Term End	Attendance Fees R'000	Travel And Accommodation R'000	Reimbursements And Allowances R'000	Training R'000	Total R'000
Mr NL Theledi:						
Chairperson	2022/12/04	641	15	3	7	666
Dr IJ van Zyl	2020/07/29	641	32	18	7	698
Dr JA Breed	2020/07/29	660	2	4	7	673
Mr JS Roux	2020/07/29	553	19	7	7	586
Dr C Moloko	2024/03/05	646	7	5	5	663
Mr Phophi (Deputy Chairperson)	2023/09/23	684	10	21	7	722
Dr SM Hlatshwayo (Chairperson)	2024/03/05	928	2	3	35	968
Mr RA Manoko	2024/03/05	825	9	7	35	876
Ms Conny Ntshane	2025/09/24	750	41	20	7	818
Mr Lekgema Mankge	2025/09/24	664	16	15	7	702
Mr Marthhinus Brand	2025/09/24	572	19	4	6	601
Dr Nomzamo Tutu	2026/07/30	352	-	-	3	355
		7 916	172	107	133	8 328
2019						
Mr BE De Vries	2019/07/29	306	228	11	17	562
Dr CJ Booyens	2019/07/29	96	14	5	11	126
Dr C Moloko	2022/10/22	549	69	8	22	648
Dr SM Hlatshwayo (Chairperson)	2024/03/05	836	99	7	22	964
Mr Brand	2025/09/24	194	25	6	17	242
Mr NL Theledi	2019/09/08	623	69	9	13	714
Dr IJ van Zyl	2020/07/29	712	107	29	13	861
Dr JA Breed	2020/07/29	587	148	32	63	830
Mr L Mkange	2025/09/24	136	14	21	17	188
Mr JS Roux	2020/07/29	478	305	20	34	837
Mr M Erasmus Phopi (Deputy Chairperson)	2023/09/23	601	67	24	24	716
Mr RA Manoko	2025/09/24	688	82	28	20	818
Ms C Ntshane	2025/09/24	133	8	18	17	176
		5 939	1 235	218	290	7 682

The Trustee remuneration should be seen in relation to the attendance of meetings as reported in the Board of Trustees report as well as the term of office applicable to each trustee. It is worth noting that not all Trustees reside in Gauteng and therefore travel and accommodation costs are incurred.

The total of the Trustees and Independent Committee fees disclosed in this note is included in the Board and Committee fee line items as disclosed in Administration Expenditure (refer note 16).

Notes to the Audited Annual Financial Statements

as at December 31, 2020

17. TRUSTEES' AND INDEPENDENT COMMITTEE MEMBERS' REMUNERATION (continued)

Independent Committee members' remuneration

2020	Term End	Attendance Fees R'000	Travel And Accommodation R'000	Reimbursements And Allowances R'000	Training R'000	Total R'000
Mr J Lesejane (Audit Committee Chairperson)	2024/01/01	389	7	3	3	402
Ms Malande Tonjeni	2022/04/22	311	7	2	1	321
Ms Carolyn Chalmers	2022/04/01	321	4	31	1	357
		1 021	18	36	5	1 080

2019	Term End	Attendance Fees R'000	Travel And Accommodation R'000	Reimbursements And Allowances R'000	Training R'000	Total R'000
Ms F Msiza	2019/03/31	37	-	-	-	37
Dr P Ford	2019/03/31	18	17	-	-	35
Ms M David	2019/03/31	37	5	2	-	44
Rev Frank Chikane	2019/03/31	19	12	-	-	31
Mr J Lesejane (Audit Committee Chairperson)	2020/12/31	388	45	3	22	458
Ms M Tonjeni	2022/03/31	186	26	3	9	224
Ms Chalmers	2020/03/31	137	107	-	-	244
		822	212	8	31	1 073

Remuneration paid to independent committee members during 2020 was based on a fixed rate per meeting.

18. IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES

Movement in the allowance account for impairment losses

Impairment losses recognised directly in income

	2020 (R'000)	2019 (R'000)
	(28 933)	(84 500)
	70 195	120 578
	41 262	36 078

Notes to the Audited Annual Financial Statements

as at December 31, 2020

19. INVESTMENT INCOME

Dividend income

From investments in financial assets measured at fair value through profit or loss:

Listed investments - local

Interest income

From investments in financial assets:

Interest received on financial assets at fair value through profit or loss

Net realised gains/(losses) on financial assets at fair value through profit or loss

Net unrealised gains/(losses) on financial assets at fair value through profit or loss

Interest received on cash and cash equivalents

	2020 (R'000)	2019 (R'000)
	74 164	49 429
	864 383	833 486
	(68 090)	71 086
	(10 651)	(62 044)
	42 478	49 319
	902 284	941 276

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

Notes to the Audited Annual Financial Statements

as at December 31, 2020

20. NET HEALTHCARE RESULT PER BENEFIT OPTION

2020	*TANZANITE One R'000	BERYL R'000	RUBY R'000	EMERALD VALUE R'000	EMERALD R'000	ONYX R'000	TOTAL R'000
Risk contribution income	1 973 861	1 891 107	5 178 805	5 080 836	27 780 730	2 099 533	44 004 872
Relevant healthcare expenditure	(1 078 944)	(1 669 116)	(3 441 341)	(4 334 054)	(24 435 719)	(2 338 785)	(37 297 957)
Risk claims incurred	(1 004 247)	(1 612 750)	(3 315 112)	(4 236 038)	(23 940 520)	(2 307 468)	(36 416 134)
Managed care services	(74 697)	(56 366)	(126 229)	(98 016)	(495 199)	(31 317)	(881 823)
Gross healthcare result	894 917	221 991	1 737 464	746 782	3 345 011	(239 252)	6 706 915
Administration expenditure	(157 343)	(118 643)	(265 653)	(206 324)	(1 042 014)	(65 899)	(1 855 877)
Marketing services	(10 795)	(8 149)	(18 238)	(14 159)	(71 512)	(4 519)	(127 374)
	726 779	95 199	1 453 573	526 299	2 231 485	(309 670)	4 723 664
Net impairment losses on healthcare receivables	(4 216)	(2 552)	(4 580)	(12 795)	(14 959)	(2 159)	(41 262)
Net healthcare result	722 563	92 647	1 448 993	513 504	2 216 526	(311 829)	4 682 402
Investment income	81 510	58 941	129 230	104 960	496 476	31 167	902 284
Finance cost	(79)	(57)	(123)	(98)	(468)	(29)	(852)
Other income	2 696	1 939	4 204	3 347	16 014	989	29 189
Investment management fees	(3 912)	(2 813)	(6 098)	(4 855)	(23 232)	(1 434)	(42 344)
Total comprehensive surplus/(deficit) for the year	802 778	150 657	1 576 206	616 858	2 705 316	(281 136)	5 570 679
Number of members	69 372	49 884	108 151	86 099	411 997	25 432	750 935

* In 2020 Sapphire option underwent some changes in benefits and its name changed to Tanzanite One

Notes to the Audited Annual Financial Statements

as at December 31, 2020

2019	SAPPHIRE R'000	BERYL R'000	RUBY R'000	EMERALD VALUE R'000	EMERALD R'000	ONYX R'000	TOTAL R'000
Risk contribution income	1 397 990	1 494 393	4 475 962	3 971 934	26 771 790	2 161 115	40 273 184
Relevant healthcare expenditure	(494 618)	(1 265 607)	(3 052 332)	(3 636 227)	(24 627 432)	(2 720 012)	(35 763 229)
Risk claims incurred	(436 548)	(1 219 161)	(2 939 946)	(3 557 360)	(24 138 240)	(2 687 010)	(34 945 266)
Managed care services*	(58 070)	(46 446)	(112 386)	(78 867)	(489 192)	(33 002)	(817 963)
Gross healthcare result	903 372	228 786	1 423 630	335 707	2 144 358	(558 897)	4 509 955
Administration expenditure	(121 864)	(97 490)	(235 759)	(165 612)	(1 025 491)	(69 155)	(1 714 456)
Marketing services	(8 939)	(7 150)	(17 296)	(12 140)	(75 256)	(5 076)	(125 855)
	772 569	124 146	1 170 575	157 955	1 043 611	(633 128)	2 669 644
Net impairment losses on healthcare receivables	(1 655)	(1 441)	(15 870)	(3 619)	(10 821)	(1 607)	(36 078)
Net healthcare result	770 914	122 705	1 154 705	154 336	1 032 790	(634 735)	2 633 566
Investment income	66 792	53 368	129 325	92 069	563 288	69 285	941 276
Interest allocated to personal medical savings accounts	(68)	(55)	(128)	(91)	(538)	(36)	(916)
Other income	2 344	1 896	4 416	3 135	18 516	1 218	31 525
Investment management fees	(2 332)	(1 887)	(4 394)	(3 120)	(18 425)	(1 211)	(31 369)
Total comprehensive surplus/(deficit) for the year	837 650	176 027	1 283 924	246 329	1 595 631	(565 479)	3 574 082
Number of members	54 026	43 713	101 777	72 266	426 789	28 050	726 621

Notes to the Audited Annual Financial Statements as at December 31, 2020

20. NET HEALTHCARE RESULT PER BENEFIT OPTION (continued)

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

The Scheme offers its members five different benefit options and an efficiency option: Tanzanite One (previously named Sapphire), Beryl, Ruby, Emerald Value, Emerald and Onyx.

Tanzanite One and Beryl are the entry level options where cover is provided by designated provider networks. Tanzanite was specifically designed to be inexpensive and it achieves this by providing out of hospital care at private facilities and in hospital cover can be at a private or public facility using GEMS network of hospitals. Beryl provides in hospital cover at both public and private facilities.

Ruby offers members a savings account for day-to-day medical expenses as well as a hospital benefit. Savings contributions portion is comprised of 20% of contribution income of the Ruby option.

Emerald Value is an option which offers benefits through the use of the Gems networks with specific care co-ordination principles.

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

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

Notes to the Audited Annual Financial Statements as at December 31, 2020

21. CASH GENERATED FROM OPERATIONS

	2020 (R'000)	2019 (R'000)
Surplus / Deficit reported:	5 570 679	3 574 044
Adjustments for:		
Depreciation, amortisation and impairment	36 770	40 478
Investment transaction fees	654	564
Loss on disposals of assets	29	458
Investment income:		
Cash and cash equivalents	(42 478)	(49 319)
Income earned on financial assets at fair value through profit or loss	(859 806)	(891 957)
Other:		
Interest expense	852	916
Impairment losses on healthcare receivables	41 262	36 078
Movements in provisions	711 309	58 000
Other non-cash items	6 875	-
Changes in working capital:		
Trade and other receivables	(965 489)	(822 404)
Trade and other payables	282 184	124 884
Personal medical savings account liability	252 344	148 212
Lease escalation reserve	-	(1 165)
	5 035 185	2 218 789

22. CRITICAL ACCOUNTING JUDGMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment of trade and other receivables

Objective evidence of the impairment of trade and other receivables includes the Scheme's past experience of collecting payments, trade and other receivables outstanding for 120 days or more and receivables due from deceased members. Refer to note 1.18 for more detail with regards to the accounting policy for impairment losses.

Outstanding risk claims provision

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

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

22. CRITICAL ACCOUNTING JUDGMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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

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

Sources of unreported claim payments include:

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

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

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

The following table illustrates the quantum of uncertainty inherent to the outstanding risk claims provision estimates. As opposed to claims for 2019 that have already been paid, the claims for 2020 estimate to be paid (or reopened) in future payment months are still subject to uncertainty. This quantity forms a useful basis for a sensitivity analysis. The table below illustrates the effect of a 10% increase and decrease in this amount.

	Claims for 2020 services paid from Jan 2021 to March 2021 R'000	2020 claims estimated at the time to be paid after March 2021 R'000	2020 Outstanding risk claims provision R'000	% change in outstanding risk claims provision
Base Scenario	1 817 906	196 484	2 014 390	-%
10% increase	1 817 906	216 130	2 034 036	0,98%
10% decrease	1 817 906	176 840	1 994 746	(0,98)%

The same analysis appears below for 31 December 2019 financial year outstanding risk claims provision, where claims paid after March 2020 for 2019 forms the basis for the sensitivity analysis. Note that the base scenario figures below are actuals not estimates.

	Claims for 2019 services paid from Jan 2020 to March 2020 R'000	2019 claims estimated at the time to be paid after March 2020 R'000	2019 Outstanding risk claims provision R'000	% change in outstanding risk claims provision
Base Scenario	1 075 220	227 860	1 303 080	-%
3% increase	1 075 220	234 700	1 309 920	0,52%
3% decrease	1 075 220	221 020	1 296 240	(0,52)%

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

22. CRITICAL ACCOUNTING JUDGMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

The Scheme monitors each month's initial outstanding risk claims provision over a four month period as subsequent claims are received. Due to the impact of Covid on the claims of the Scheme the variance range was increased to 10% to allow for the uncertainty brought on by the pandemic.

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

Additional comments are provided in note 11.

23. PROFESSIONAL INDEMNITY AND FIDELITY INSURANCE

In accordance with the Scheme rules, the Scheme has Professional Indemnity and Fidelity insurance to cover the events of fidelity, Trustees and officers' errors and omissions and medical scheme reimbursements. On 31 December 2020 the effective cover was R1 billion (2019: R1 billion). The Scheme's insurance contracts are reviewed for adequacy and reinstated annually.

The Scheme renewed and increased its additional cover during the 2020 financial year for data protection and cyber liability cover. This covers any electronically stored digital or digitalised information or media, network interruption cost and cyberterrorism. The effective cover is R150 million (2019: R50 million).

24. RELATED AND OTHER SIGNIFICANT PARTIES

Related parties with significant influence over the Scheme

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

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

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

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

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

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

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

24. RELATED AND OTHER SIGNIFICANT PARTIES (continued)

The Scheme has multiple other administration and managed care providers that it contracts with, but non of these have significant influence over the Scheme or control over the Scheme.

Key management personnel and their close family members

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

Transactions with related parties

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

	2020 (R'000)	2019 (R'000)
Key management personnel		
Compensation (includes remuneration and other costs)		
Short-term benefits	22 968	26 734
Post-employment benefit	1 697	1 721
Bonus	5 179	5 204
	29 844	33 659
Principal Officer**	9 128	6 053
Chief Finance Officer	4 130	3 816
Chief Admin and Transaction Services	2 678	2 258
Chief Communications and Member Affairs Officer	2 676	1 143
Chief Governance and Compliance Officer	2 920	2 697
Chief Healthcare Management Officer	3 773	3 096
Chief Information, Communication and Technology Officer	2 717	2 419
Chief Corporate Services Officer	3 773	3 068
Chief Audit Executive	2 796	2 486
Chief Research Officer	2 287	-
Chief Operations Officer (vacant)	-	5 022
Company Secretary and Legal Counsel	2 047	1 717
Gross contributions received (*)		
Board of Trustees	616	702
Principal Officer	123	35
Executive Committee	646	634
Claims incurred (*)		
Board of Trustees	611	678
Principal Officer	22	8
Executive Committee	325	364

(*) Gross contributions and claims incurred include contributions and claims incurred by members and their beneficiaries.
(**) The Principal Officer's fee includes all payments made to the current Principal Officer as well as final payments (inclusive of restraint of trade) made to the outgoing Principal Officer.

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

24. RELATED AND OTHER SIGNIFICANT PARTIES (continued)

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

Parties with significant influence over the Scheme, but not control

	2020 (R'000)	2019 (R'000)
Statement of Comprehensive Income		
Administration fees	1 114 388	1 025 842
Accredited managed healthcare fees	881 823	817 963
Actuarial fees	15 062	11 689
Trade and other payables		
Administration fees due	95 937	88 700
Accredited managed healthcare fees due	74 788	69 460
	170 725	158 160

Terms and conditions of the administration agreement

Administration fees are calculated on an arm's length basis on the number of members in good standing for the month. These contracts are renewable annually.

The outstanding balance bears no interest and is settled within 7 days. The Scheme has the right to terminate the agreements on 90 days' notice.

The services covered by these agreements include:

Service	Provider 2020	Provider 2019
Contribution and Debt Services	Medscheme Holdings (Pty) Ltd	Medscheme Holdings (Pty) Ltd
Correspondence Services	Metropolitan Health (Pty) Ltd	Metropolitan Health (Pty) Ltd
Member and claims administration services	Metropolitan Health Corporate (Pty) Ltd (MHC)	Metropolitan Health Corporate (Pty) Ltd (MHC)

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

24. RELATED AND OTHER SIGNIFICANT PARTIES (continued)

Terms and conditions of the managed care agreements

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

All contracts are tendered for a maximum contract period of three to five years. The Scheme has the right to terminate the agreements on 90 days' notice. Managed care services are calculated on the number of members in good standing for the month. The outstanding balance bears no interest and is settled within seven days.

The services covered by these agreements include:

Service	Provider 2020	Provider 2019
Chronic medicine management services	Universal Care (Pty) Ltd	Universal Care (Pty) Ltd
Dental managed care	Denis (Pty) Ltd	Denis (Pty) Ltd
HIV disease management services	Thebe Health Risk Management	Thebe Health Risk Management
Managed health care services	Medscheme Holdings (Pty) Ltd	Medscheme Holdings (Pty) Ltd
Maternity programme services	Healthi Choices (Pty) Ltd	Healthi Choices (Pty) Ltd
Emergency medical dispatch services	Europ Assist (Pty) Ltd	Europ Assist (Pty) Ltd
Pharmaceutical benefit management services	Medikredit (Pty) Ltd	Medikredit (Pty) Ltd

25. INSURANCE RISK MANAGEMENT

Risk management objectives and policies for mitigating insurance risk

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

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

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

Notes to the Audited Annual Financial Statements as at Decemr 31, 2020

25. INSURANCE RISK MANAGEMENT (continued)

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

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

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

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

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

2020 Insurance Age Grouping (in years)	Hospitals R'000	Specialists R'000	Medicines R'000	General Practitioners R'000	Optometry R'000	Other R'000	Total R'000
<26	90 382	55 524	14 599	15 795	3 368	18 816	198 484
26 - 35	1 704 365	1 122 637	472 883	358 096	68 248	510 692	4 236 921
36 - 50	4 505 746	3 202 696	2 097 446	1 027 718	267 703	1 864 075	12 965 384
51 - 65	4 555 775	3 198 946	2 177 700	761 450	235 925	1 745 541	12 675 337
>65	2 063 805	1 420 379	928 217	177 741	53 232	684 591	5 327 965
	12 920 073	9 000 182	5 690 845	2 340 800	628 476	4 823 715	35 404 091

2019 Insurance Age Grouping (in years)	Hospitals R'000	Specialists R'000	Medicines R'000	General Practitioners R'000	Optometry R'000	Other R'000	Total R'000
<26	95 924	56 363	16 629	18 008	3 880	20 263	211 067
26 - 35	1 880 348	1 124 019	503 925	392 452	71 851	519 573	4 492 168
36 - 50	4 669 433	3 124 822	2 069 180	1 063 589	271 783	1 780 946	12 979 753
51 - 65	4 315 559	2 957 912	1 969 662	721 785	226 146	1 585 177	11 776 241
>65	2 150 755	1 383 961	815 945	172 532	52 021	639 710	5 214 924
	13 112 019	8 647 077	5 375 341	2 368 366	625 681	4 545 669	34 674 153

Notes to the Audited Annual Financial Statements as at December 31, 2020

25. INSURANCE RISK MANAGEMENT (continued)

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

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

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

Claims development

Claims development tables are not presented since the uncertainty regarding the amount and timing of claim payments is typically resolved within one year and the majority of cases within four months. At year end, a provision is made of those claims outstanding that are not yet reported at that date. Details regarding the subsequent claim development in respect thereof have been disclosed in note 11 & 22.

26. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

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

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

The Scheme manages the financial risks as follows:

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

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

Market risk

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

The table summarises the Scheme's financial instrument exposure to market risk as at December 31, 2020 and excludes trade and other receivables and trade and other payables as they are not exposed to currency risk, price risk and interest rate risk.

Notes to the Audited Annual Financial Statements as at December 31, 2020

26. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

As at December 31, 2020	Total value R'000	Currency risk R'000	Price risk R'000	Interest rate risk R'000
Cash and cash equivalents	2 765 607	-	-	2 765 607
Equities	2 081 603	-	2 081 603	-
Local bonds	2 562 322	-	2 562 322	-
Local money markets	14 233 042	-	-	14 233 042
Foreign money markets	6 940	6 940	-	-
Foreign bonds	533 713	533 713	-	-
	22 183 227	540 653	4 643 925	16 998 649

As at December 31, 2019	Total value R'000	Currency risk R'000	Price risk R'000	Interest rate risk R'000
Cash and cash equivalents	2 449 761	-	-	2 449 761
Equities	1 764 546	-	1 764 546	-
Local bonds	1 838 773	-	1 838 773	-
Local money markets	8 714 722	-	-	8 714 722
Foreign money markets	53	53	-	-
Foreign bonds	653 852	653 852	-	-
	15 421 707	653 905	3 603 319	11 164 483

Interest rate risk

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

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

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

Notes to the Audited Annual Financial Statements as at December 31, 2020

26. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

As at December 31, 2020	Up to 3 months R'000	3 - 12 months R'000	More than 12 months R'000	Total R'000
Cash and cash equivalents	2 765 607	-	-	2 765 607
Local money markets	7 163 090	3 057 986	4 011 966	14 233 042
	9 928 697	3 057 986	4 011 966	16 998 649

As at December 31, 2019	Up to 3 months R'000	3 - 12 months R'000	More than 12 months R'000	Total R'000
Cash and cash equivalents	2 449 761	-	-	2 449 761
Local money markets	5 193 542	2 474 670	1 046 511	8 714 723
	7 643 303	2 474 670	1 046 511	11 164 484

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

	2020	2019
Current accounts	2,73%	5,18%
Call accounts	4,5%	7,11%
Money market instruments carried at fair value through profit or loss	5,12%	8,30%

Interest rate risk sensitivity analysis

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

Based on past experience and a reasonable possible change in interest rate within the life of the investment, the rate of 0.50% is considered appropriate in measuring the sensitivity of the Scheme's interest bearing instruments. The Scheme's investments are short term in nature with a maximum investment period of twelve months permitted. This sensitivity analysis assumes that all other variables remain constant.

At December 31, 2020, if interest rates had been 50 basis points higher with all other variables held constant, the surplus for the year and accumulated funds would have been R68.6 million higher (2019: surplus would have been R15.2 million higher).

At December 31, 2020, if interest rates had been 50 basis points lower with all other variables held constant, the surplus for the year and accumulated funds would have been R67.7 million lower (2019: surplus would have been R15.2 million lower).

Notes to the Audited Annual Financial Statements as at December 31, 2020

26. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

Currency risk

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

For purpose of seeking investment diversification, the Scheme has invested 2.8% (2019: 5%) of its financial assets at fair value through profit or loss in offshore bond and cash portfolios. At December 31, 2020 this equated to R540.7 million (2019: R653.9 million).

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

Currency risk sensitivity analysis

Based on past experience and a reasonable possible change in currency, 10% and 15% change in currency is considered appropriate in measuring the Scheme's currency risk sensitivity. A 10% depreciation in the Rand would result in a gain of R21.6 million (2019: R36.5million) and a 15% depreciation in the Rand would result in a gain of R32.8 million (2019: R57.9 million). A 10% appreciation in the Rand would result in a loss of R20.4 million (2019: R27.7 million) and a 15% appreciation in the Rand would result in a loss of R30.0 million (2019: R37.6 million). This impact would be recognised in the surplus and accumulated funds. The sensitivity is based on the assumption that the Rand has strengthened or weakened against the US Dollar by 10% or 15% considered as the reasonable possible change, with all other variables held constant.

The following US Dollar exchange rate was applied.

	2020	2019
Average rate	16,46	14,45
Year-end closing rate	14,66	14,04

Price risk

The Scheme is exposed to equity securities price risk due to equity investments held by the Scheme that are classified at fair value through profit or loss. The Scheme is indirectly exposed to equity risk through its investments in listed equities. The value of the equity investments was R2.1billion (2019: R1.8billion)

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

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

Notes to the Audited Annual Financial Statements as at December 31, 2020

26. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

Equity price risk sensitivity analysis

Based on past experience and a reasonable possible change in equity prices, 10% and 15% change in equity prices is considered appropriate in measuring the Scheme's equity price risk sensitivity. A 10% increase in the price of equities within the equity portfolios would result in a gain of R243.7 million (2019: R153.7 million) and a 15% increase

would result in a gain of R366.1 million (2019: R231.2 million). A 10% decrease in the price would result in a loss of R242.1 million (2019: R152.1 million) and a decrease of 15% would result in a loss of R362.5 million (2019: R227.5 million). This impact would be recognised in the surplus and accumulated funds. The sensitivity is based on the assumption that equity prices had increased or decreased by 10% or 15% considered as the reasonable possible change, with all other variables held constant..

Liquidity risk

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

At December 31, 2020 Category	Less than 1 month R'000	Between 1 and 3 months R'000	Between 3 months and 1 year R'000	Over 1 year R'000	Total R'000
Insurance liabilities:					
Outstanding claims provision	1 240 398	511 957	262 034	-	2 014 389
Non-derivative financial liabilities:					
Amounts owing to members and providers	208 293	-	-	-	208 293
Claims reported not yet paid	421 614	-	-	-	421 614
Sundry payables and accrued expenses	236 609	-	-	-	236 609
Unallocated deposits	2 966	-	-	-	2 966
Personal medical savings accounts liability	1 263 247	-	-	-	1 263 247
Total liabilities	3 373 127	511 957	262 034	-	4 147 118
Cash and cash equivalents	2 765 607	-	-	-	2 765 607
Financial assets at fair value through profit or loss	9 278 751	872 441	3 143 783	6 122 646	19 417 621
Available cash and investments	12 044 358	872 441	3 143 783	6 122 646	22 183 228
Excess liquidity	8 671 231	360 484	2 881 749	6 122 646	18 036 110

Notes to the Audited Annual Financial Statements as at December 31, 2020

26. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

At December 31, 2019 Category	Less than 1 month R'000	Between 1 and 3 months R'000	Between 3 months and 1 year R'000	Over 1 year R'000	Total R'000
Insurance liabilities:					
Outstanding claims provision	810 490	335 480	157 110	-	1 303 080
Non-derivative financial liabilities:					
Amounts owing to members and providers	170 930	-	-	-	170 930
Claims reported not yet paid	227 866	-	-	-	227 866
Sundry payables and accrued expenses	236 962	-	-	-	236 962
Unallocated deposits	1 830	-	-	-	1 830
Personal medical savings accounts trust liability	1 010 903	-	-	-	1 010 903
Total liabilities	2 458 981	335 480	157 110	-	2 951 571
Cash and Cash Equivalents	2 449 761	-	-	-	2 449 761
Financial Assets at fair value through profit or loss	263 471	5 591 718	2 505 418	4 611 340	12 971 947
Available cash and investments	2 713 232	5 591 718	2 505 418	4 611 340	15 421 708
Excess liquidity	254 251	5 256 238	2 348 308	4 611 340	12 470 137

Credit risk

Credit risk is the risk of financial loss to the Scheme, if a counterpart to a financial instrument fails to meet its contractual obligations. Key areas where the Scheme is exposed to credit risk are:

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

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

Notes to the Audited Annual Financial Statements as at December 31, 2020

26. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

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

	2020 (R'000)	2019 (R'000)
Cash and cash equivalents		
First National Bank	873 590	900 956
South African Reserve Bank	1 892 017	1 548 805
	2 765 607	2 449 761
Ratings of Banks invested with:	2020	2019
ABSA Bank	BB-	BB
First National Bank	BB-	BB
Investec Bank	BB-	BB
Nedbank	BB-	BB
Standard Bank	BB-	BB
South African Reserve Bank	BB	A
Rand Merchant Bank	BB-	BB
The maximum exposure to credit risk for financial assets at year end were as follows:		
Financial assets at fair value through profit or loss	19 417 620	12 971 947
Loans and receivables (Cash and cash equivalents)	2 765 607	2 449 761
Loans and receivables (Trade and other receivables)	338 570	335 754
	22 521 797	15 757 462

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

Notes to the Audited Annual Financial Statements as at December 31, 2020

26. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

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

As at December 31, 2020	Not past due, not impaired R'000	Past due, not impaired R'000	Impaired R'000	Total R'000
Contribution debtors	158 703	7 164	4 407	170 274
Receivables from members and providers	14 529	8 262	15 008	37 799
Sundry accounts receivable	15 488	-	-	15 488

As at December 31, 2019	Not past due, not impaired R'000	Past due, not impaired R'000	Impaired R'000	Total R'000
Contribution debtors	156 577	4 149	3 225	163 951
Receivables from members and providers	5 842	6 633	50 342	62 817
Sundry accounts receivable	10 885	-	-	10 885

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

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

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

As at December 31, 2020	3 - 30 days R'000	31 - 60 days R'000	61 - 90 days R'000	Total R'000
Contribution debtors	158 703	4 444	2 720	165 867
Receivables from members and providers	14 529	5 508	2 753	22 790

As at December 31, 2019	3 - 30 days R'000	31 - 60 days R'000	61 - 90 days R'000	Total R'000
Contribution debtors	156 577	2 651	1 498	160 726
Receivables from members and providers	5 841	5 117	1 516	12 474

Notes to the Audited Annual Financial Statements as at December 31, 2020

26. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

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

	2020 (R'000)	2019 (R'000)
Receivables impaired:		
Contribution debtors		
120 days	4 407	3 226
Receivables from members and providers		
120 days	15 008	50 342
Total	19 415	53 568

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

Fair value estimation

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

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

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

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

Notes to the Audited Annual Financial Statements as at December 31, 2020

26. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

Fair value of financial assets by hierarchy level

At December 31, 2020	Carrying amount R'000	Total R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
Cash and cash equivalents	2 765 607	2 765 607	-	2 765 607	-
Financial assets at fair value through profit or loss	-	19 417 620	19 105 515	312 105	-
Equities	2 081 603	2 081 603	2 081 603	-	-
Local bonds	2 562 322	2 562 322	2 562 322	-	-
Local money markets	14 233 042	14 233 042	13 927 877	305 165	-
Foreign money markets	6 940	6 940	-	6 940	-
Foreign bonds	533 713	533 713	533 713	-	-
	22 183 227	22 183 227	19 105 515	3 077 712	-

At December 31, 2019	Carrying amount R'000	Total R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
Cash and cash equivalents	2 449 761	2 449 761	-	2 449 761	-
Financial assets at fair value through profit or loss	12 971 946	12 971 947	7 479 823	5 469 859	22 265
Equities	1 764 546	1 764 546	1 764 546	-	-
Local bonds	1 838 773	1 838 773	1 838 773	-	-
Local money markets	8 714 722	8 714 723	3 222 652	5 469 806	22 265
Foreign money markets	53	53	-	53	-
Foreign bonds	653 852	653 852	653 852	-	-
	15 421 707	15 421 708	7 479 823	7 919 620	22 265

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

The amount and timing of the contractually specified future cash flows arising from the money market instrument is determined. The related discount factor applicable to each cash flow is obtained from the constructed discount curve. Each future cash flow is discounted using the corresponding discount factor. The all-in price for the money market instrument is formulated as the sum of the discounted future cash flows.

Notes to the Audited Annual Financial Statements as at December 31, 2020

26. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

The fair value hierarchy has the following levels:

Level 1 – These are assets measured using quoted prices in an active market

Level 2 – These are assets measured using inputs other than quoted prices included within Level 1, that are either directly or indirectly observable.

Level 3 – These are assets measured using inputs that are not based on observable market data.

Capital adequacy risk

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

First year of operations	10,00%
Second year of operations	13,50%
Third year of operations	17,50%
Fourth year of operations	22,00%
Fifth year of operations	25,00%

The Registrar of Medical Schemes, in terms of the business plan submitted by the Scheme in 2017, agreed to revise the required reserve levels which will apply to the Scheme for each related year of operation:

Heading	Actual levels	CMS approved levels
31 December 2017	15,22%	8,20%
31 December 2018	24,74%	18,40%
31 December 2019	31,53%	20,80%
31 December 2020	41,11%	22,70%

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

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

Notes to the Audited Annual Financial Statements as at December 31, 2020

27. GUARANTEES AND COMMITMENTS

The Scheme held guarantees in favour of the following instructions during the year

	2020 (R'000)	2019 (R'000)
Council for Medical Scheme	2 500	2 500
South African Post Office	5 000	5 000
	7 500	7 500

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

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

28. INVESTMENT IN UNCONSOLIDATED STRUCTURED INVESTMENT

The scheme's investments in segregated portfolios and collective investment schemes are subject to the terms and conditions of the respective fund's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those funds. The investment manager makes investment decisions after extensive due diligence of the underlying fund, its strategy and the overall quality of the underlying fund's manager. All of the funds in the investment portfolio are managed by portfolio managers who are compensated by the respective fund for their services. Such compensation generally consists of an asset-based fee and is reflected in the valuation of the Scheme's investment in each of the funds.

The Scheme has the right of redemption of its investments in the funds.

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as at Decemr 31, 2020

28. INVESTMENT IN UNCONSOLIDATED STRUCTURED INVESTMENT (continued)

The exposure to investments in the funds at fair value, by strategy employed, is disclosed in the following table.

These investments are included in financial assets at fair value through profit or loss in the statement of financial position.

Name and description	2020 Fair Value of Scheme Funds invested R'000	Fair Value of Investee fund R'000	% of net assets attributable to the Scheme	Fund
	1 307 860	30 744 186	4,25%	Ninety One Corporate Money Market, Z, Inc, Zar
	400	17 196 710	-%	Nedgroup Investments Money Market Fund Class C1
Collective investment schemes	63 716	59 161 745	0,11%	Nedgroup Investments Core Income Fund - Class C1
	1 118 368	8 960 111	12,48%	Prudential High Interest Fund
	185 160	6 401 403	2,89%	Prudential Corporate Bond Fund
	480 989	808 251	59,51%	Prudential Global Fixed Income Fund

29. REGULATORY NON - COMPLIANCE

To the best of the Scheme's knowledge, the compliance matters listed below cover all of the non-compliance matters for the 2020 financial year.

Late paying Employer groups

Nature

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

Cause

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

Notes to the Audited Annual Financial Statements

as at Decemr 31, 2020

29. REGULATORY NON - COMPLIANCE (continued)

Corrective action

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

Benefit Options

Nature

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

Cause

The Scheme's Onyx option did not meet the self sufficiency requirement in terms of Section 33(2) of the Medical Schemes Act. Loss making options adversely affect the financial performance of the Scheme and the reserve ratio. The claims on the Onyx option were driven by the option's older demographic profile, which resulted in higher claims being incurred relating to chronic and lifestyle related diseases. The migration of the pre1992 pensioners to this option in prior years also resulted in the financial performance being adversely affected during the financial year.

Corrective Action

The Scheme is however accumulating funds in accordance with a business plan approved by the Registrar. The Registrar was notified of the Scheme's performance throughout 2020 with the submission of quarterly performance reports and quarterly meetings with the CMS. Part of the quarterly submission are actuarial reports for the specific option in order for CMS to see progress of the options against the business plan and budget for the year.

30. EVENTS AFTER THE REPORTING PERIOD

Early in 2021 government published criteria that would be followed in order to determine the population with a more significant risk of high acuity hospital admission or death as a result of Covid-19. This criteria will therefore be used in the Covid-19 vaccination strategy prioritising high risk individuals.

The criteria is summarised below:

- Healthcare workers have the highest priority for vaccinations.
- Essential workers, persons in congregate settings, persons older than 60 and persons older than 18 with related healthcare conditions will have second priority for vaccinations.
- Other persons older than 18 will be vaccinated once the previous groups have been vaccinated.

There remains significant uncertainty as to the cost of the vaccinations.

Notes to the Audited Annual Financial Statements as at December 31, 2020

30. EVENTS AFTER THE REPORTING PERIOD (continued)

The expected cost of vaccinating the eligible beneficiaries is described in the table below:

Summary of GEMS costs	Number of beneficiaries	Assuming R129 + R60 per dose	Assuming R258 + R60 per dose	Assuming R387 + R60 per dose	Assuming R536 + R60 per dose
1 - Healthcare workers	185	69 983	117 749	165 515	220 687
2 - Essential workers, pensioners	631	238 591	401 439	564 287	752 383
3 - All other aged above 18	442	166 999	280 982	394 965	526 621
Total	1 258	475 573	800 170	1 124 767	1 499 691
Cost assuming 60% take up	755	285 344	480 102	674 861	899 814

Based on the scenarios considered above, the cost of vaccinating all GEMS beneficiaries older than 18 is expected to range between R476 million (1.0% of reserves) and R1.5 billion (3.1% of reserves). This is dependent on the price of these vaccination which has not yet been finalised yet.

31. COVID-19 IMPACT

Use of estimates and judgments

The preparation of financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Schemes estimates and underlying assumptions are reviewed for reasonability on an ongoing basis. Revisions to accounting estimates are recognised in the comprehensive income in the year in which the estimates are revised, if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the annual financial statements are disclosed in note 31 to these financial statements

Impact

A major risk event during 2020 was the Covid-19 pandemic. The Board of Trustees of the Scheme engaged regularly throughout the year on the impact of Covid-19 on the Scheme as well as to consider and approve certain relaxations of Scheme managed care rules to assist members during the Covid-19 pandemic.

The pandemic contributed to a substantial increase in claims of R3.1 billion for Covid-19 related claims for 2020. The majority of these claims were in relation to hospital admission for Covid-19.

Notes to the Audited Annual Financial Statements as at December 31, 2020

31. COVID-19 IMPACT (continued)

Early estimations of the financial impact of Covid-19 on the Scheme, based on international trends, were that the Scheme would potentially incur Covid-19 claims of between R1 billion and R2 billion for the members of GEMS, significantly lower than actual experience in retrospect.

During 2020 the Scheme paid for 641 372 Covid-19 tests, with a total number of 131 346 individuals testing positive. The admission rate was 22.5% and the recovery rate was 88.7% with 5 517 fatalities reported for the Scheme.

The Scheme spent a total of R3.1 billion on Covid-19 cost for its members during 2020 with the majority of the spend being incurred for treatment of members in hospital (R2.5 billion) and payment of the Covid-19 testing (R491m).

Covid-19 relief measure

The Scheme provided members with an additional 30 days to repay arrears before any debt management actions were taken. Below is a table indicating the impact of this on the debt of the Scheme for 2020:

	April	May	Jun	Jul
Number of members impacted	421	1 660	936	1 263
Total Rand amount of debt relief outstanding at month end	1 446 962	3 814 067	5 013 436	5 882 373

	Aug	Sept	Oct	Nov	Dec
Number of members impacted	1 023	920	598	541	526
Total Rand amount of debt relief outstanding at month end	4 841 154	3 633 884	2 671 964	2 155 343	2 050 582

Notes to the Audited Annual Financial Statements as at December 31, 2020

31. COVID-19 IMPACT (continued)

Covid-19 rule amendments

No specific rule amendments were done but the Board of Trustees did approve various changes to the managed care rules and protocols of the Scheme to assist members with claims during the pandemic.

Area	Change	Impact
Pharmacy network rules	Nominated Pharmacy rules suspended.	The 30% Co-payment was lifted to allow members to claim from a pharmacy most convenient to them during the lock down
Network Hospitals	Network rules suspended intermittently as per the need arose according to the intensity of the Covid wave in the different provinces	Out of network co-payment penalties for use of a non-network hospital suspended for Tanzanite One and EVO
High cost medicines protocols	Criteria and ex gratia format for requests relaxed to accommodate requests for certain high cost drugs such as Polygam	Threshold for approval lowered to accommodate requests for Covid related admissions.
Tariffs for virtual consultations	Allowed funding for virtual consultations	Allowed funding for virtual consultations to ensure that members can still access healthcare service without face-to-face consultations
Pathology	Covid PCR Test paid from risk from Rand one	Preserved day to day benefits. PCR funded directly from risk
Tariffs for PPE	Introduction of PPE tariff codes for enhanced funding of PPE for hospitals and practitioners	Intensify infection control measures to reduce the spread of Covid-19 virus
Screening	Introduction of tariff code for fund of Covid-19 screening	Funding for Covid-19 screening for early identification of potential Covid-19 positive patients

Impact on debt balances and bad debt provision

The Scheme did not experience a significantly different experience in the collection of debt from members or providers that required an adjustment in the way the Scheme provides for its bad debt and as such the bad debt provision of the Scheme was largely unaffected.

Impact on going concern status

The impact of COVID-19 had no negative impact on the going concern status of the Scheme with the Scheme posting a surplus and holding current assets well in excess of current liabilities. Evidently from the claims experience during 2020, members did not use healthcare services at similar frequencies as prior to the pandemic, which contributed significantly to the surplus recorded for the financial year.

The Scheme does consider the longer term sustainability of the Scheme each year by taking a 5 year view and based on the outcome of this exercise the Scheme has no concern about the longer term going concern status of the Scheme

Notes to the Audited Annual Financial Statements as at December 31, 2020

31. COVID-19 IMPACT (continued)

Impact on IBNR

The Scheme's claims experience during December 2020 was very different to what would have been expected on any normal year as a result of the coronavirus pandemic, and most possibly, the second wave that the country experienced.

Below we show the actual IBNR as at 31 March 2021 for December 2020, and showing how much of it is Covid-19 related. Nearly 31.2% of the actual December IBNR (to date) is Covid-19 IBNR. This amounts to just over R567 million.

	R'000
Actual December IBNR	1 817 906
Actual December Covid-19 IBNR	567 016

Also as a result of this the Scheme had to revise its initial IBNR provision from R1.6 billion to R2.014 billion.

There remains uncertainty around a potential 3rd wave for South Africa, but the Scheme continues to monitor, analyse and report on the daily Covid-19 cases within the Scheme to assess any potential increase/decrease and the impact of that on the Scheme.

Impact on investments

As a result of Covid-19 impact on the investment markets, the Scheme experienced a negative impact on certain of its investment portfolios and investment returns. This was further compounded by the significant reduction in interest rates by the SARB.

It is important to note that a large portion of the impact experienced were unrealised and the Scheme maintained its investment position in anticipation that the markets will recover. This was in fact the case with the investment markets showing a significant recovery in the last 3 months of the year, translating into good investment returns for 2020.

The recovery of the investment markets continued into 2021 and all unrealised losses have been recovered fully with substantial gains anticipated for the year.

Impact on solvency ratio

The Scheme incurred additional claim costs due to the Covid-19 pandemic, although the lockdown regulations supported a dramatically lower use, where members delayed elective surgery as well as seeking other healthcare services. This led to a significant reduction in other healthcare costs for 2020, translating into a net positive financial position for the year.

As a result, of the Scheme reported a positive variance against the budgeted claims for 2020 of R3 billion, which translated into an increased bottom line surplus from initial budgeted expectations.

The solvency ratio for the Scheme at the end of 2020 was 41% significantly above the statutory requirement level of 25% and the 31% expected in the budget.

The Scheme has estimated that had it not been for the Covid-19 pandemic, the Scheme would have had results much closer to the budget and a projected reserve ratio of around 33%.

Other Information

Principal Officer's office and postal address

Dr. BOS Moloabi
GEMS Vutomi House, 124 Mercy Avenue
Menlyn Maine, Precinct

Private Bag X1
Hatfield
0028

Registered office and postal address

GEMS Vutomi House
124 Mercy Avenue
Menlyn Maine Precinct

Private Bag X1
Hatfield
0028

Medical Scheme administrator during the year, office and postal address

Metropolitan Health Corporate (Pty) Ltd
Parc du Cap
Building 6
7 Mispel Avenue

P.O. Box 4313
Cape Town
8001

Actuaries' office and postal address

Insight Actuaries and Consultants (Pty) Ltd Block
J, Central Park
400 16th Road Midrand
1682

Auditors' office and postal address

Deloitte & Touche
5 Magwa Crescent Waterfall City Midrand
2066

Independent Investment Consultant details

Mentenova (Pty) Ltd
3rd Floor, Oxford and Glenhove Building 2 114
Oxford Road
Rosebank 2198

Asset Managers' details

Taquanta Asset Managers (Pty) Ltd 7th Floor,
Newlands Terraces
8 Boundary Road Newlands
Cape Town 7700

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

Prudential Investment Managers South Africa (Pty)
Ltd 7th Floor, Protea Place
40 Dreyer Street Claremont
Cape Town 7735

Coronation Asset Management (Pty) Ltd 7th Floor,
MontClare Place
Cnr Campground & Main Road Claremont
Cape Town 7708

Sanlam Investment Management (Pty) Ltd
55 Willie van Schoor Drive Tygervalley
Cape Town 7532

AUDITED FINANCIAL STATEMENTS

The full audited Annual Financial Statements can be obtained from the Scheme's registered office, postal address, website and by email as stated below:

REGISTERED OFFICE:

GEMS Vutomi House 124 Mercy Avenue,
Menlyn Maine Precinct,
Waterkloof Glen Ext 2, Pretoria

POSTAL ADDRESS:

Private Bag X1 Hatfield
0028

Scheme website: www.gems.gov.za
Scheme email: enquiries@gems.gov.za