| ANNUAL REPORT | 2008

Healthcare for Professionals | PROFMED

NOTICE OF ANNUAL GENERAL MEETING

Notice to members

Notice is hereby given that the 38th Annual General Meeting ("the meeting") of the members of Profmed will be held at 15 Eton Road, Parktown, Johannesburg on Thursday 28 May 2009, at 15:30.

Agenda:

1. To receive and adopt the annual financial statements for the year ended 31 December 2008 (including the reports of the trustees and the auditors of Profmed).
2. To re-appoint PricewaterhouseCoopers Inc. as the auditors of Profmed for 2009/10 in terms of rule 27 of the rules of Profmed.
3. To confirm the 2008 remuneration of the trustees.
4. To announce the election of two trustees in accordance with the rules of Profmed.
5. To transact such other business as may be transacted at the Annual General Meeting (subject to the rules of Profmed, and in particular rule 28.1.6, and the provisions of the Medical Schemes Act No. 131 of 1998, as amended).

By order of the Board of Trustees.

Graham R Anderson
Principal Officer

19 April 2009

CONTENTS

This Annual Report includes the annual financial statements presented to the members.

CHAIRMAN'S REPORT

Dr EJ Thorburn
Chairman of the Board of Trustees

The origins of the phrase "May you live in interesting times" are uncertain, but the sentiment expressed therein can certainly be said to be true of the current state of the global economy. Nevertheless, Profmed's outlook for the future can only be described as exciting, if somewhat challenging!

Administration

The scope of our IT systems were enhanced to facilitate the effective in-house management of the Scheme's hospital expenditure. The benefits of this have been apparent in our claims experience as well as in the reduction of our overall administration costs. The integration of these systems has also enabled Profmed to provide a more efficient and streamlined service to both members and service providers.

Governance

Profmed's governance is of a high standard. However, a priority for the Board of Trustees is to constantly seek ways of improving the governance of the Scheme to ensure that this aspect of the business remains in line with internationally accepted standards. Processes and procedures are continually updated to ensure compliance with the Medical Schemes Act, King II (and soon King III), and, where relevant, the Companies Act. Transparency and integrity remain at the heart of the ethos and philosophy of Profmed.

Financial

With healthy reserves and the support of our actuaries, the Board was able to channel significant funding towards the further enhancement of benefits, thereby containing contribution increases. Hospitals and medicines remain Profmed's biggest cost-drivers, while expenditure on specialists increases year-on-year. These costs are monitored and managed on an ongoing basis.

Profmed once again achieved an unconditional audit, thanks to high standards of governance and the expertise of management, our accounting staff and the members of the Audit Committee, who maintain international best practice standards.

Although Profmed is a restricted scheme in terms of the Medical Schemes Act, we compete with open or unrestricted schemes in that Profmed must market its product to the general consumer, albeit a very selected target group of that market. This results in the Scheme incurring marketing and advertising expenses, as well as broker fees, all of which contribute to the Scheme's non-healthcare expenses. Despite these added costs, Profmed's non-healthcare expenses have been reduced to 12,84%, which is in line with the industry average. However, an ongoing concern is the constant flow of new regulatory requirements emanating from the Council for Medical Schemes, which inevitably generate higher administration costs to ensure compliance.

Investments

You will be reassured to know that Profmed currently holds over 75% of its funds in cash and cash equivalents. This strategy has minimised the impact of the global economic crisis on Profmed's investments, although the Scheme has not been immune to its effects. But the Board of Trustees monitors the situation closely in conjunction with its asset managers.

Strategy

Membership growth continues to be the Scheme's prime strategic imperative. To achieve sustainable growth, in 2008 Profmed established an in-house broker consultancy division as well as a marketing department. This has resulted in the Scheme experiencing a continued positive membership growth over the period under review, and the Board extends its thanks and appreciation to the staff and departments who have contributed to this achievement. The Board continues to investigate alternative viable avenues of growing the membership of the Scheme.

Trustees

The diversity of skills of the trustees on the Board, together with their enthusiasm, makes a formidable combination. I thank them for their support given not only to me as Chairman of the Board, but also to you, the members of this unique restricted scheme we call our own.

Staff

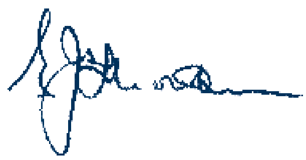
Having outgrown our office space at the PPS head office, our executive office has relocated to new premises. The move was an exciting indication of Profmed's growth and, under the leadership of Graham Anderson (Principal Officer) and Beverley Carrozzo (Scheme Manager), we anticipate more to come for Profmed and our valued members.

The Future

In looking to the future, it is always beneficial to reflect on the past. Although Profmed was registered as a medical scheme on 8 October 1969, hospital and nursing home benefits were already available to members from 1 January 1959, making Profmed one of the longest existing and most experienced medical schemes in South Africa!

The medical scheme industry faces many challenges. The probability of National Health Insurance becoming a reality in the not too distant future is already receiving the attention of the Board. The Board of Trustees takes its fiduciary duties seriously and is alert and responsive to the existing and future challenges that face both Profmed and the industry.

We look forward in anticipation of another 50 years of success together!



Dr Eric Thorburn
Chairman

REPORT
of the Board of Trustees

The Board of Trustees hereby presents its report for the year ended 31 December 2008.
Registration Number: 00061

1. Description of the medical scheme

1.1 Terms of registration

Profmed is a not-for-profit restricted medical scheme registered in terms of the Medical Schemes Act 131 of 1998 (the Act), as amended.

1.2 Healthcare options within Profmed

During the year the following Scheme options were available exclusively to graduate professionals:

- ProPinnacle
- ProSecure Plus
- ProSecure
- ProActive Plus
- ProActive.

2. Management

2.1 Board of Trustees in office during the year under review

- Dr EJ Thorburn Chairman (re-appointed 22 June 2006)
- Ms EL Prins Vice-Chairman (re-appointed 22 June 2006)

- Dr JB Bekker (elected 29 May 2008)
- Dr MM Bhikhoo (re-appointed 29 May 2008)
- Dr SA Craven (re-elected 22 June 2006)
- Mr E Huggett (elected 24 May 2007)
- Dr E Nkosi (appointed 24 May 2007)
- Dr RD Shuttleworth (appointed 22 June 2006)
- Mr RN Theunissen (appointed 24 May 2007)
- Dr HS van Riet (re-elected 24 May 2007)
- Mr G Warrender (term expired 29 May 2008).

Seated (L-R): Dr RD Shuttleworth, Ms EL Prins (Vice-Chairman), Dr EJ Thorburn (Chairman), Dr HS van Riet, Dr E Nkosi.
Standing (L-R): Mr RN Theunissen, Dr JB Bekker, Mr GR Anderson (Principal Officer), Dr SA Craven, Mr E Huggett, Dr MM Bhikhoo.

Board proceedings

The Board met six times during 2008 (2007: six times). The Trustees have full and unrestricted access to relevant information. The Trustees are elected or appointed from the Profmed membership.

2.2 Principal Officer

Mr GR Anderson

2.3 Registered office address and postal address

15 Eton Road	P.O. Box 1004
Parktown	Houghton
Johannesburg	2041

2.4 Medical scheme administrator during the year

PPS Medical Scheme Administrator (Proprietary) Limited

(Accreditation number: Admin 37)

67 Koranna Avenue	Private Bag X1031
Doringkloof	Lyttelton
Centurion	0140

2.5 Auditors

PricewaterhouseCoopers Inc.

32 Ida Street	P.O. Box 35296
Menlo Park	Menlo Park
Pretoria	0102

2.6 Investment managers

Investec Private Bank

(Financial Service Provider number: 8102)

100 Grayston Drive	P.O. Box 785700
Sandown	Sandton
Sandton	2146

2.7 Actuaries

NMG Consultants and Actuaries (Proprietary) Limited

NMG House	P.O. Box 3075
411 Main Avenue	Randburg
Randburg	2125

REPORT
of the Board of Trustees

3. Investment policy of the Scheme

The Trustees continue to invest excess funds in line with Regulation 30 of the Act as amended. The investment policy and strategy of the Scheme is regularly reviewed by the Board of Trustees. During the 2007 year the investment policy and strategy was changed. The Scheme appointed Investec Private Bank as the asset managers during that year. The table below summarises the current strategic asset allocation of the Scheme:

	Cash	Equities	Property
Strategic parameters	60 - 80%	20 - 40%	0 - 10%
Tactical allocation	71.4%	25.6%	3.0%

4. Review of the accounting period's activities

4.1 Operational statistics per benefit option

2008	ProPinnacle	ProSecure Plus	ProSecure	ProActive Plus	ProActive	Total Scheme
Number of members at year-end	2 774	1 927	7 081	2 065	10 092	23 939
Average number of members for the year	2 809	1 892	7 097	1 918	10 177	23 893
Number of beneficiaries at year-end	6 135	4 236	18 351	4 627	28 207	61 556
Average number of beneficiaries for the year	6 273	4 302	18 471	4 316	28 498	61 860
Dependant ratio at year-end	1.21	1.20	1.59	1.24	1.79	1.57
Average net contributions per beneficiary per month	R1 878	R1 095	R909	R550	R461	R789
Average relevant healthcare expenditure per beneficiary per month	R1 888	R1 188	R907	R388	R302	R711
Average non-healthcare expenditure per beneficiary per month	R117	R115	R101	R117	R94	R101
Relevant healthcare expenditure as percentage of gross contributions (claims ratio)	100.52%	108.48%	99.78%	70.65%	65.61%	90.19%
Non-healthcare expenditure as a percentage of gross contributions	6.25%	10.53%	11.08%	21.19%	20.33%	12.84%
Average age of beneficiaries per option	47.76	41.29	39.04	31.67	32.25	36.40
Pensioner ratio per benefit option	24.04%	15.63%	12.23%	4.34%	4.53%	9.52%

2007	ProPinnacle	ProSecure Plus	ProSecure	ProActive Plus	ProActive	Total Scheme
Number of members at year-end	2 900	1 587	7 062	1 507	10 649	23 705
Average number of members for the year	2 903	1 524	7 104	1 417	10 866	23 814
Number of beneficiaries at year-end	6 507	3 544	18 620	3 441	29 794	61 906
Average number of beneficiaries for the year	6 532	3 403	18 680	3 256	30 145	62 016
Dependant ratio at year-end	1.24	1.23	1.64	1.28	1.77	1.61
Average net contributions per beneficiary per month	R1 633	R1 006	R828	R514	R418	R707
Average relevant healthcare expenditure per beneficiary per month	R1 708	R1 129	R810	R335	R260	R631
Average non-healthcare expenditure per beneficiary per month	R120	R121	R103	R118	R97	R104
Relevant healthcare expenditure as percentage of gross contributions (claims ratio)	104.61%	112.26%	97.82%	65.20%	62.35%	89.15%
Non-healthcare expenditure as a percentage of gross contributions	7.35%	12.03%	12.41%	22.88%	23.28%	14.67%
Average age of beneficiaries per option	46.74	40.52	38.47	32.20	31.60	35.80
Pensioner ratio per benefit option	22.51%	15.01%	11.61%	4.74%	4.10%	8.95%

4.2 Operational statistics for the Scheme

	2008	2007
Average accumulated funds per member	**R12 661**	R12 562
Investment income as a percentage of investments	**10.20%**	6.51%
Impairment losses as a percentage of investments	**(4.90%)**	(0.79%)
Realised gains as a percentage of investments	-	11.37%

4. Review of the accounting period's activities *(continued)*

4.3 Results of operations

The Report of the Trustees is one of the important documents that is presented together with, and accompanies, the annual financial statements. Accordingly, references have been made directly to the page numbers, figures, notes and other statistics contained in the accompanying financial statements. In addition, the same abbreviations for certain names have been used consistently in this report and in the financial statements.

The results of the Scheme's operations are set out on page 16 of the annual financial statements.

In the period under review, the ratio of relevant healthcare expenditure as a percentage of net contribution income was 90.19% (2007: 89.15%). Managed care service expenses were 2.05% of net contribution income (2007: 1.85%), while administration expenditure (inclusive of impairment losses) was 10.29% of contribution income (2007: 12.39%).

4.4 Accumulated funds ratio

	2008 R'000	2007 R'000
The accumulated funds ratio is calculated as follows:		
Total members' funds per Balance Sheet	**301 528**	299 149
Less: Reserve for unrealised investment gains	**–**	1 667
Accumulated funds per Regulation 29 of the Act	**301 528**	297 482
Annual contribution income per Income Statement	**585 472**	526 133
Accumulated funds ratio calculated as the ratio of accumulated funds/gross annual contributions x 100	**51.50%**	56.54%
Minimum ratio required by Regulation 29 of the Act	**25.00 %**	25.00 %

Premium increases with effect 1 January were as follows:

	2008	2007
ProPinnacle	**15.00%**	7.85%
ProSecure Plus	**14.30%**	9.00%
ProSecure	**9.40%**	7.88%
ProActive Plus	**9.40%**	5.00%
ProActive	**9.50%**	5.00%

4.5 Members' funds and reserve accounts

Movements in the members' funds and reserve accounts are set out in the Statement of Changes in Funds and Reserves on page 17. There were no unusual movements for the Trustees to explain.

4.6 Outstanding claims

Movements in the outstanding claims provision are set out in Note 9 to the financial statements. The outstanding claims provision is made up of estimated claims incurred before and up to 31 December 2008 which had not been reported to the Scheme as at that date.

5. Actuarial valuation

The Scheme's actuaries have been consulted regarding the determination of the contribution and benefit levels. They have also assisted in determining the assumptions used in the calculation of the outstanding claims provision noted above. This is fully explained in the notes to the financial statements.

6. Outsourcing of the Scheme's administration

PPS Medical Scheme Administrator (Propriety) Limited continued to perform the administration function of the Scheme for the current year.

7. Attendance at Trustee and committee meetings

The following schedule sets out Board of Trustee and committee meeting attendances. Trustee remuneration is disclosed in Note 18 to the annual financial statements.

Name	Board Meetings		Executive Committee		Audit Committee		Governance, Strategy and Risk Committee		Medical Committee		Remuneration Committee		Ad Hoc Meetings
	A	B	A	B	A	B	A	B	A	B	A	B	B
Dr EJ Thorburn*	6	6	4	4	1	1	4	3	4	4	3	3	16
Ms EL Prins*	6	6	4	4			4	4					25
Dr JB Bekker*	4	4							2	2			2
Dr MM Bhikhoo*	6	6	4	4			4	4	4	4			34
Mr M Brown					3	3					3	3	
Dr SA Craven*	6	6							4	4			3
Mr E Huggett*	6	6			2	2	1	1					3
Mr KG Mockler					3	2					3	3	16
Dr E Nkosi*	6	6					3	3	2	2			4
Dr Y Omar Carrim					3	3							
Dr RD Shuttleworth*	6	6							4	4			3
Mr RN Theunissen*	6	6	2	1	3	3	4	4					5
Dr HS van Riet*	6	6							4	4			4
Mr G Warrender*	3	3	2	2	1	1	1	1					5

A – Total possible number of meetings that could have been attended
B – Actual number of meetings attended
* Trustee

8. Non-compliance with Medical Schemes Act 131 of 1998 and Regulations

8.1 Contribution income not received after three days of becoming due

In terms of Section 26(7) of the Medical Schemes Act 131 of 1998 contribution income shall be received within three days of becoming due. There were instances where the Scheme did not receive all contributions within three days of becoming due. This is mainly as a result of members paying contributions after the third day of it becoming due, members having insufficient funds in their bank accounts at the time of collection and members resigning without informing the Scheme. Contributions not received within three days are actively pursued.

8.2 Financial soundness of benefit options

In terms of Section 33(2) of the Medical Schemes Act 131 of 1998 each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound. For the year, three of the options had deficits. This was addressed by reviewing the contribution rates for the 2008 year, except that the Council for Medical Schemes rejected the increase proposed by the Board of Trustees for the ProPinnacle option and as a result this option incurred a significant deficit for the 2008 year. Overall, the Scheme has been profitable for the year under review and it is expected to remain profitable in the future.

8.3 Broker contracts

Regulation 28(1) of the Medical Schemes Act 131 of 1998 states that "No person may be compensated by a medical scheme in terms of section 65 for acting as a broker unless such person enters into a prior written agreement with the medical scheme concerned." There were instances where contracts were not in place and the Scheme has rectified this situation.

8.4 Member savings balances

In terms of Regulation 10(7) of the Medical Schemes Act 131 of 1998 the Scheme must be able to provide details of amounts paid into members' personal medical savings accounts to the Registrar. The Scheme has an unidentified savings balance at year-end and will obtain legal opinion as to how to deal with this matter.

9. Audit and Governance, Strategy & Risk Committees

9.1 Audit Committee

The Scheme has an established Audit Committee, which was set up in accordance with Section 36 of the Medical Schemes Act 1998, as amended. The Audit Committee is mandated by the Board of Trustees by means of written terms of reference, which determine its membership, authority and duties. The main functions and responsibilities of the Audit Committee include assisting the Board of Trustees in their evaluation of the adequacy and efficiency of the internal control systems and financial reporting processes.

The members and chairman of the Committee are not officers of the Scheme or its administrators. The Committee met on three occasions during the course of the year.

The Scheme's Principal Officer, Financial Manager, Internal and External auditors attend the Committee meetings by invitation and have unrestricted access to the chairman of the Committee.

The Audit Committee discharged its responsibilities for the year under review as follows:

- Reviewed the effectiveness of the internal control systems, accounting practices, information systems and auditing processes and was satisfied with the effectiveness of the processes and controls in place;
- Evaluated the annual financial statements accompanying this report;
- Reviewed the Scheme's compliance with the Medical Schemes Act and Regulations;
- Reviewed the performance and independence of the auditors.

The Audit Committee comprises:

Mr KG Mockler (Chairman)	Independent member
Mr M Brown	Independent member
Mr E Huggett	Trustee (incoming 29 May 2008)
Dr Y Omar Carrim	Independent member
Mr RN Theunissen	Trustee
Mr G Warrender	Trustee (outgoing 29 May 2008)

9.2 Governance, Strategy and Risk Committee

The Scheme has an established Governance, Strategy and Risk Committee. The Committee is mandated by the Board of Trustees by means of written terms of reference, which determine its membership, authority and duties. The main functions and responsibilities of the Committee include assisting the Board of Trustees in their implementation of governance processes, the setting of strategic intent and assessment and management of risks and the impact thereof to the Scheme.

The Governance, Strategy and Risk Committee comprises:

Mr RN Theunissen (Chairman)	Trustee
Ms EL Prins	Trustee
Dr MM Bhikhoo	Trustee
Dr E Nkosi	Trustee

The Governance, Strategy and Risk Committee discharged its responsibilities for the year under review as follows:

- Ensured compliance with the Medical Schemes Act 131 of 1998, as amended, King II and other regulatory requirements;
- Ensured compliance with the rules and clinical protocols of the Scheme and with accepted financial and business procedures and protocols;
- Proposed strategic initiatives and imperatives to the Board and assisted with the compilation of an appropriate strategy;
- Identified and categorised inherent industry and other business risks and monitored level of risk;
- Managed risk, reviewed corrective initiatives and reacted to variations.

10. Events after the reporting period

There have been no adjusting or non-adjusting events that have occurred between the accounting date and the date of this report which affected the 2008 results.

STATEMENT OF RESPONSIBILITY
by the Board of Trustees

The Trustees are responsible for the preparation, integrity, and fair presentation of the annual financial statements of Profmed. The annual financial statements, presented on pages 15 to 51, have been prepared in accordance with International Financial Reporting Standards and the Medical Schemes Act of South Africa and include amounts based on judgements and estimates made by management.

The Trustees consider that in preparing the annual financial statements, they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all International Financial Reporting Standards that they consider to be applicable have been followed.

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

The Trustees have responsibility for ensuring that accounting records are kept. The accounting records disclose with reasonable accuracy the financial position of the Scheme to enable the Trustees to ensure that the annual financial statements comply with the relevant legislation.

Profmed operated in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures.

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

The Scheme's external auditors, PricewaterhouseCoopers Inc., have audited the annual financial statements, and their report is presented on page 14.

The annual financial statements were approved by the Board of Trustees on 2 April 2009 and are signed on its behalf by:

Chairman	Trustee	Principal Officer

2 April 2009

STATEMENT OF CORPORATE GOVERNANCE
by the Board of Trustees

Profmed is committed to the principles and practices of fairness, openness, integrity and accountability in all dealings with its stakeholders. The Profmed Charter, which includes the Code of Conduct, has been adhered to. The Scheme is also fully committed to the principles of the Code of Corporate Practices and Conduct set out in the King Report on Corporate Governance. Five of the Trustees are elected by the members of the Scheme. The other five are appointed by the Board of Trustees.

Board of Trustees

The Trustees meet regularly and monitor the performance of the administrators. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive.

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

Internal control

The administrators of the Scheme maintain internal controls and systems designed to provide reasonable but not absolute assurance as to the integrity and reliability of the annual financial statements and to safeguard, verify and maintain accountability for its assets. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

No event or item has come to the attention of the Board of Trustees that would indicate a material breakdown in the functioning of the key internal controls and systems which were in operation during the year under review.

Chairman	Trustee	Principal Officer

2 April 2009

REPORT OF THE INDEPENDENT AUDITORS
to the Members of Profmed

We have audited the annual financial statements of Profmed Medical Scheme, which comprise the Balance Sheet as at 31 December 2008, the Income Statement, the Statement of Changes in Funds and Reserves and the Cash Flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 15 to 51.

Trustees' responsibility for the financial statements

The Scheme's Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Medical Schemes Act of South Africa. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustees, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Scheme as at 31 December 2008, and of the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Medical Schemes Act of South Africa.

Emphasis of matter

Without qualifying our opinion we draw attention to Note 29 in the financial statements which indicates that the Scheme did not comply with Section 33(2), of the Medical Schemes Act 131 of 1998, as three of the benefit options were not self-supporting in terms of membership and financial performance.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: J Prinsloo
Registered Auditor
Pretoria
20 April 2009

BALANCE SHEET

As at 31 December	Notes	2008 R'000	2007 R'000
Assets			
Non-current assets		**80 454**	95 521
Office furniture and equipment	2	**1 131**	283
Available-for-sale financial assets	4	**79 323**	95 238
Current assets		**277 154**	260 322
Available-for-sale financial assets	4	**121 993**	153 782
Accounts receivable	5	**3 763**	2 654
Cash and cash equivalents	6	**151 398**	103 886
Total assets		**357 608**	**355 843**
Funds and liabilities			
Members' funds and reserves		**301 528**	299 149
Accumulated funds		**301 528**	297 482
Revaluation reserve		**-**	1 667
Current liabilities		**56 080**	56 694
Member savings plan accounts	7	**275**	275
Accounts payable	8	**22 031**	22 319
Outstanding claims provision	9	**33 774**	34 100
Total funds and liabilities		**357 608**	**355 843**

INCOME STATEMENT

For the year ended 31 December 2008	Notes	2008 R'000	2007 R'000
Net contribution income	10	**585 472**	526 133
Relevant healthcare expenditure	11	**(528 010)**	(469 056)
Net claims incurred		**(528 010)**	(469 056)
Claims incurred	11	**(528 252)**	(470 117)
Third party claim recoveries	11	**242**	1 061
Gross healthcare result		**57 462**	57 077
Managed care: Management services	12	**(12 008)**	(9 724)
Administration expenditure	13	**(60 289)**	(65 408)
Broker service fees	14	**(2 934)**	(2 316)
Net impairment losses on healthcare receivables	25.3	**(28)**	(5)
Reduction in the provision for impaired healthcare receivables	25.3	**70**	250
Net healthcare result		**(17 727)**	(20 126)
Other income		**39 776**	65 242
Investment income	15	**38 034**	64 610
Sundry income	16	**1 742**	632
Other expenditure		**(18 003)**	(3 585)
Net impairment losses on available-for-sale financial assets	4	**(17 168)**	(2 746)
Asset management fees	17	**(835)**	(839)
Net surplus for the year		**4 046**	**41 531**

STATEMENT OF CHANGES IN FUNDS AND RESERVES

For the year ended 31 December 2008	Accumulated funds R'000	Revaluation reserve for available-for-sale financial assets R'000	Total members' funds and reserves R'000
Balance at 1 January 2007	255 951	28 769	284 720
Surplus for the year	41 531	-	41 531
Brought forward gains realised during the year	-	(28 769)	(28 769)
Realised gains on investments acquired during the year	-	(10 952)	(10 952)
Net change in available-for-sale financial assets	-	12 619	12 619
Balance at 31 December 2007	297 482	1 667	299 149
Surplus for the year	4 046	-	4 046
Net change in available-for-sale financial assets	-	(1 667)	(1 667)
Balance at 31 December 2008	**301 528**	**-**	**301 528**

CASH FLOW STATEMENT

For the year ended 31 December 2008	Notes	2008 R'000	2007 R'000
Cash flow from operating activities			
Cash generated from operations	19	**(35 641)**	(10 426)
Net cash generated/(utilised) from operating activities		**(35 641)**	(10 426)
Cash flow from investing activities			
Acquisition of office furniture and equipment	2	**(1 009)**	(4)
Acquisition of financial assets		**-**	(347 182)
Proceeds on sale of financial assets	4	**15 296**	387 334
Reclassification of investments to cash and cash equivalents		**30 832**	-
Interest	15	**36 014**	23 976
Dividends	15	**2 020**	913
Net cash generated/(utilised) from investing activities		**83 153**	65 037
Net (decrease)/increase in cash and cash equivalents		**47 512**	54 611
Cash and cash equivalents at beginning of year		**103 886**	49 275
Cash and cash equivalents at end of year	6	**151 398**	**103 886**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2008

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The financial statements of the Scheme have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Medical Schemes Act of South Africa. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets to fair values.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Scheme's management to exercise judgement in the process of applying the Scheme's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 9.

(a) Standards, amendments and interpretations effective in the 2008 year-end but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but they are not relevant to the Scheme's operations:

- IFRIC 12, 'Service Concession Arrangements';
- IFRIC 13, 'Customer Loyalty Programmes'.

(b) Interpretations to existing standards that are not yet effective and not relevant for the Scheme's operations

- IAS 1, 'Presentation of Financial Statements - Revised'. The changes made to IAS 1 are to require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. This will enable readers to analyse changes in a scheme's equity resulting from transactions with owners in their capacity as owners separately from 'non-owner' changes. The revisions include changes in the titles of some of the financial statements to reflect their function more clearly. The new titles are not mandatory for use in financial statements.

- IAS 27, 'Consolidated and Separate Financial Statements - Revised'. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss.

- IFRS 3, 'Business Combinations - Revised'. The new standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed.

- Amendment to IFRS 2, 'Amendment to IFRS 2 Share-Base Payment: Vesting Conditions and Cancellations'. The amendment deals with two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

1.1 Basis of preparation *(continued)*

- Amendment to IAS 32 and IAS 1, 'Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation'. The amendments require entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions: a) puttable financial instruments (for example, some shares issued by co-operative entities); b) instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (for example, some partnership interests and some shares issued by limited life entities). Additional disclosures are required about the instruments affected by the amendments.

- Improvements to IFRSs. This is a collection of amendments to IFRSs. These amendments are the result of conclusions the IASB reached on proposals made in its annual improvements project. The annual improvements project provides a vehicle for making non-urgent but necessary amendments to IFRSs. Some amendments involve consequential amendments to other IFRSs.

- Amendments to IAS 39, 'Amendments to IAS 39 Financial Instruments: Recognition and Measurement Exposures Qualifying for Hedge Accounting'. The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges.

- IFRIC 15, 'Agreements for the Construction of Real Estate'. IFRIC 15 addresses diversity in accounting for real estate sales. IFRIC 15 clarifies how to determine whether an agreement is within the scope of IAS 11 - Construction Contracts or IAS 18 - Revenue and when revenue from construction should be recognised. The guidance replaces example 9 in the appendix to IAS 18.

- IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation'. IFRIC 16 provides guidance on identifying the foreign currency risks that qualify as a hedged risk (in the hedge of a net investment in a foreign operation). It secondly provides guidance on where, within a company, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting. Thirdly, it provides guidance on how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item.

- IFRIC 13, 'Customer Loyalty Programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values.

- IAS 23 (Amendment), 'Borrowing Costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed.

- IFRS 8, 'Operating Segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about Segments of an Enterprise and Related Information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

1.2 Office furniture, equipment and leasehold improvements

Office furniture, equipment and leasehold improvements are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the carrying amount when it is probable that future economic benefits associated with the asset will flow to the Scheme and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Depreciation on furniture and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives. Depreciation on leasehold improvements is calculated using the straight-line method to allocate their cost over the period of the lease agreement.

The estimated maximum useful lives of the assets:

Office furniture	10 years
Office equipment	3 years
Leasehold improvements	3 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing realisable proceeds with carrying amounts. These are included in the Income Statement as Sundry income.

Where components of an item of furniture and equipment have different useful lives they are accounted for as separate items. There were no changes in the useful lives from prior years.

1.3 Financial instruments

Financial assets and liabilities are recognised when the Scheme becomes party to the contractual provisions of the instrument (the trade date). The Scheme classifies its financial assets into the following categories: Accounts receivable and Available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. The Scheme determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Initial recognition of financial instruments

All financial instruments are initially recognised at fair value, which represents the consideration receivable or given, plus direct transaction costs. Regular purchases and sales of financial instruments are recognised on trade-date, which is the date on which the Scheme commits to purchase or sell the instruments. Subsequent to initial recognition, financial instruments are measured as set out in the following paragraphs.

Accounts receivable

Accounts receivable are non-derivative financial assets that arise from transactions with members and suppliers, and have fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest rate method. A provision for impairment is raised when there is objective evidence that the Scheme will not be able to collect all amounts due according to the original terms of receivables.

1.3 Financial instruments *(continued)*

Accounts receivable from the Road Accident Fund

The timing and monetary value of Road Accident Fund recoveries are considered to be uncertain and therefore debtors are only raised for amounts subsequently received after year-end. Amounts received during the year are deducted from Relevant healthcare expenditure (Note 11) as part of Third party claim recoveries.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the Scheme intends to dispose of them within twelve months of the balance sheet date. Subsequent to initial recognition, available-for-sale financial assets are carried at fair values. Changes in the fair values of financial assets classified as available-for-sale are recognised directly in the Scheme's revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously recognised in accumulated funds are transferred to the Income Statement and disclosed as realised gains on disposal of 'available-for-sale investments'. Interest on available-for-sale financial assets, calculated using the effective interest method, is recognised as investment income in the income statement. Dividends on available-for-sale equity instruments are recognised as Investment income in the Income Statement when the Scheme's right to receive payments is established.

The fair values of quoted financial assets are based on bid prices at balance sheet date as quoted daily on a regulated exchange. Investments in collective investment schemes are valued at the unit price at year-end. If the market for a financial asset is not active, the Scheme establishes fair value by using valuation techniques. The Scheme did not have any financial assets that did not trade in an active market for the period under review.

1.4 Impairment of financial assets

The Scheme assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (loss event) and that loss event has an adverse impact on the estimated cash flows from the asset that can be reliably measured.

An asset is impaired if its carrying amount is greater than its recoverable amount. The recoverable amount of all assets, excluding available-for-sale investments, is the greater of the selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment of available-for-sale financial assets

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as objective evidence that the financial assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from reserves and recognised in the Income Statement.

Impairment of receivables and other financial assets carried at amortised cost

Objective evidence that a financial asset (or group of financial assets) carried at amortised cost is impaired includes observable data that comes to the attention of the Scheme regarding the following loss events:

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

If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated cash flows, discounted at the asset's effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Income Statement within net impairment losses on receivables.

Reversal of impairment

Impairment losses are reversed when there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Subsequent recoveries of receivables previously impaired are recognised through the Income Statement, in net impairment losses on receivables.

1.5 Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred or when, on transfer, the Scheme retains the contractual rights to receive the cash flows of the financial asset, but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Where the Scheme retains substantially all the risks and rewards of ownership of the financial asset, the Scheme continues to recognise the financial asset.

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

Where the Scheme neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Scheme determines whether it has retained control of the financial asset. In this case:

(i) if the Scheme has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer;

(ii) if the Scheme has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

Financial liabilities are derecognised when the contractual obligations are discharged or cancelled or expire.

1.6 Offsetting of financial instruments

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

1.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less which are readily convertible to a known amount of cash and are subject to insignificant risk of change in value.

1.8 Provisions

Provisions are recognised when the Scheme has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the Scheme's best estimate of the cash flows to settle the present obligation for claims (excluding claims from members and providers) and other expenses incurred and notified to the Scheme as at the balance sheet date.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

Outstanding claims provision

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

Estimated co-payments are deducted in calculating the outstanding claims provision. The Scheme does not discount its provision for outstanding claims since the effect of the time value of money is not considered material.

Liability adequacy test on outstanding claims provision

At balance sheet date, liability adequacy tests are performed to ensure the adequacy of the member insurance contract liabilities. The outstanding claims provision 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 (i.e. the value of business acquired). Where a shortfall is identified, an additional provision is made and the Scheme recognises the deficiency through the Income Statement.

1.9 Member insurance contracts

Contracts under which the Scheme accepts significant insurance risk from members by agreeing to compensate the member or other beneficiary if a specified uncertain future event (the insured event) adversely affects the member or other beneficiary are classified as insurance contracts. The contracts issued compensate the Scheme's members for healthcare expenses incurred.

1.10 Contribution income

Contributions on member insurance contracts are accounted for monthly when their collection in terms of the member insurance contracts are reasonably certain. The earned portion of net contributions receivable is recognised as revenue. Net contributions are earned from the date of attachment of insurance risk, over the indemnity period on a straight-line basis. Net contributions are shown before the deduction of broker service fees and similar costs.

1.11 Relevant healthcare expenditure

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

Net risk claims incurred comprise:

- claims submitted and accrued for services rendered during the year;
- over or under provisions relating to prior year claims accruals;
- amounts paid or to be paid under service provider contracts for services rendered to members; and
- claims incurred but not yet reported.

Net of:

- recoveries from members for co-payments;
- recoveries from third parties; and
- discount received from service providers.

1.12 Expenses for the acquisition of member insurance contracts

These expenses comprise commissions or fees paid to brokers on new member insurance contracts as well as renewal commissions and any other expenses related thereto. These expenses are accounted for on an accrual basis when they become due and payable.

1.13 Investment income

Investment income comprises dividends and interest on cash and cash equivalents and other available-for-sale financial assets.

Interest income is recognised using the effective interest rate method, taking into account the principal amount outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Scheme.

Dividend income on available-for-sale equity investments is recognised when the right to receive payment has been established – this is the ex-dividend date for equity securities. Capitalisation shares received in terms of a capitalisation issue from reserves, other than share premium or a reduction in share capital, are treated as dividend income.

1.14 Retirement benefits

Defined contribution plan

The Scheme's employee pension fund is funded through payments to insurance companies. The Scheme has a defined contribution plan which is a pension plan, governed by the Pensions Fund Act, where the Scheme pays fixed contributions into a separate entity. Once the contributions have been paid, the Scheme has no legal or constructive obligations to pay further contributions if the pension fund does not hold sufficient assets to pay all employees their entitlement. The pension contributions are recognised as staff remuneration when they are due and payable.

1.15 Unallocated funds

Unallocated funds arise on the receipt of unidentified deposits in favour of the Scheme. Unallocated funds that have legally prescribed, that is funds older than three years, are written back and are included in the Income Statement.

1.16 Segment reporting

No segmental business information is presented as the entire Scheme's business is considered to be one business segment.

2. Office furniture, equipment and leasehold improvements

	Office equipment R'000	Office furniture R'000	Leasehold improve-ments R'000	Total R'000
Year ended 31 December 2008				
Opening carrying amount	157	126	0	283
Acquired during the year	356	338	315	1 009
Disposal of assets	(21)	0	0	(21)
Depreciation charge	(93)	(25)	(22)	(140)
Closing carrying amount	**399**	**439**	**293**	**1 131**
Cost or valuation	682	520	315	1 517
Accumulated depreciation	(283)	(81)	(22)	(386)
Carrying amount	**399**	**439**	**293**	**1 131**
Year ended 31 December 2007				
Opening carrying amount	251	144	0	395
Acquired during the year	4	0	0	4
Depreciation charge	(98)	(18)	0	(116)
Closing carrying amount	**157**	**126**	**0**	**283**
Cost or valuation	326	182	0	508
Accumulated depreciation	(169)	(56)	0	(225)
Carrying amount	**157**	**126**	**0**	**283**
Year ended 31 December 2006				
Cost or valuation	344	182	0	526
Accumulated depreciation	(93)	(38)	0	(131)
Carrying amount	**251**	**144**	**0**	**395**

3. Analysis of carrying amounts of financial assets and liabilities per category

	2008 R'000	2007 R'000
Available-for-sale financial assets		
- Non-current	**79 323**	95 238
- Current	**121 996**	153 782
Cash and cash equivalents	**151 398**	103 886
Accounts receivable		
- Loans and receivables	**3 223**	2 244
- Insurance receivables	**540**	410
Accounts payable		
- Financial liabilities measured at amortised cost	**4 261**	9 996
- Insurance payables	**51 544**	46 423
- Member saving plan accounts	**275**	275

4. Available-for-sale financial assets

	Notes	2008 R'000	2007 R'000
Beginning of the year		**349 306**	321 383
Capital contribution		**-**	-
Withdrawals			
- Day-to-day cash management		**(15 296)**	(3 848)
- Change of asset managers		**-**	(347 182)
Acquisitions		**-**	347 182
Net realised gains	15	**-**	39 721
Brought forward realised gains		**-**	28 769
Realised gains on investments acquired during current year		**-**	10 952
Asset management fees	17	**(835)**	(839)
Unrealised fair value loss: Revaluation reserve		**(1 667)**	(27 102)
Net impairment losses: Income Statement		**(17 168)**	(2 746)
Investment income			
- Interest	15	**33 687**	21 824
- Dividends	15	**2 020**	913
Fair value at the end of the year		**350 047**	349 306
Less: Classified as cash and cash equivalents	6	**(148 731)**	(100 286)
Less: Available-for-sale financial assets - current		**(121 993)**	(153 782)
Available-for-sale financial assets		**79 323**	**95 238**
Classified as:			
Available-for-sale financial assets			
- Non-current			
- Listed equities		**79 323**	95 238
Available-for-sale financial assets		**79 323**	**95 238**

Available-for-sale financial instruments are denominated in RSA Rand. Money market instruments redeemable in three months or less are classified as cash and cash equivalents. None of the available-for-sale financial assets are past due. At the end of the financial year there was objective evidence of impairment of the equity investments and it had an impact on the estimated future cash flows of these investments. Impairment losses were recognised in the Income Statement.

5. Accounts receivable

	2008 R'000	2007 R'000
Contributions outstanding	**540**	410
Receivable from service providers	**304**	340
Recoveries from members	**115**	85
Deposits and prepaid expenses	**131**	-
Accrued interest	**2 813**	2 029
Impairment provision	**(140)**	(210)
Current portion	**3 763**	**2 654**

As at 31 December 2008, the carrying amounts of accounts receivable approximated their fair value. Interest is not charged on overdue balances.

6. Cash and cash equivalents

	Notes	2008 R'000	2007 R'000
Cash at bank and on hand		**2 509**	3 467
Short term bank deposits		**158**	133
Money market instruments	4	**148 731**	100 286
		151 398	**103 886**

The weighted average effective interest rate on money market instruments was 12.58% (2007: 8.96%) and 8.70% (2007: 6.98%) on current and call account balances.

7. Member savings plan accounts

	Notes	2008 R'000	2007 R'000
Balance at beginning of the year		**275**	275
Payments made on behalf of members	11	**-**	-
		275	275
Repayment with termination of savings option		**-**	-
Balance due to members as at 31 December		**275**	**275**

The member savings accounts contained a demand feature, which arises from the fact that Regulation 10 of the Medical Schemes Act 131 of 1998, as amended, requires any credit balance on a member's savings account to be taken as a cash benefit when the member terminates his or her membership of the Scheme or membership option, and enrols in another benefit option or medical scheme without a savings account or does not enrol in another medical scheme. For this reason, as required by paragraph 49 of IAS 39, the fair values of the savings accounts are not less than the amounts payable on demand. The amounts were not discounted, due to the demand features.

From 2006 the Scheme no longer had member savings accounts and the identifiable credit balances were repaid four months after year-end when the December 2005 claims were settled. The balance is due to unclaimed credit balances. The Scheme will obtain a legal opinion before a final decision is made with regards to the unclaimed credit balance.

8. Accounts payable

	2008 R'000	2007 R'000
Net contributions received in advance	**905**	1 027
Reported claims not yet paid	**17 770**	12 323
Member and provider credit balances	**42**	49
Sundry accounts payable	**3 314**	8 920
	22 031	**22 319**

As at 31 December 2008, the carrying amounts of accounts payable approximated their fair value because of the short-term maturities of these liabilities.

9. Outstanding claims provision

	Notes	2008 R'000	2007 R'000
Analysis of movements in outstanding claims			
Balance at beginning of year		**34 100**	26 765
Payments in respect of prior year	11	**(35 486)**	(27 197)
Under-provision in prior year written back	11	**1 386**	432
Adjustment for current year	11	**33 774**	34 100
Balance at end of year		**33 774**	**34 100**

9. Outstanding claims provision *(continued)*

Analysis of movements in provision arising from liability adequacy test

The liability adequacy test was performed and no additional provision was required.

There are some sources of uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for claims made under insurance contracts. Initial estimates are made relating to the best calculations on reported claims and derived as the claims process develops. All estimates are revised and adjusted at year-end by management.

Process used to determine the assumptions

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

Notified claims are assessed with due regard to the claim circumstances, medical discipline, anticipated development, expected seasonal fluctuations, information available from managed care: management services and historical evidence of the size of similar claims. The provisions are best estimates, based on the most recent information available, and may be affected by the different claims run-off periods of the various medical disciplines. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The process of estimation also differs by category of claims such as in-hospital, chronic and day-to-day benefits due to differences in the underlying insurance contracts, claim complexity, the volume of claims, individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The cost of outstanding claims is estimated using the Chain Ladder method. This model extrapolates the development of incurred claims for each benefit year based upon observed development of earlier years and expected loss ratios. Run-off triangles are used in situations where it takes time after the treatment date for the full extent of the claims to become known. It is assumed that payments will emerge in a similar way in each service month. The proportional increase in known cumulative payments from one development month to the next can then be used to calculate payments for future development months.

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

- changes in processes that affect the development/recording of claims paid and incurred;
- economic, legal, political and social trends (resulting in different than expected levels of inflation and/or minimum medical benefits to be provided);
- changes in composition of members and their dependants; and
- random fluctuations, including the impact of large losses.

Assumptions

The outstanding claims provision is calculated based on claim processing patterns over the previous 24 months. Due to the large size of the Scheme membership base, no adjustment to the data is made for outliers or large claims. The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the expected claims ratios for the most recent benefit years for the in-hospital, chronic and day-to-day categories of claims. These are used for assessing the outstanding claims provision for the 2008 benefit year. Due to the fact that 94% of claims are paid within three months of the date of service, no allowance for discounting of claims costs is made.

Changes in assumptions and sensitivities to changes in key variables

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

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

An analysis of sensitivity around various scenarios for the general medical insurance business provides an indication of the adequacy of the Scheme's estimation process. The Scheme believes that the liability for claims reported in the balance sheet is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise. Consequently, if for example the estimates of the outstanding portion of claims costs for the year was 1% inaccurate, the impact on the provision would be as follows:

	Change in variable %	**Change in liability 2008 R'000**	Change in liability 2007 R'000
Hospitalisation	1% slower	**1 375**	1 930
Chronic medication	1% slower	**222**	261

This analysis has been prepared for a change in run-off factors with other assumptions remaining constant. The change in liability also represents the absolute change in surplus/(deficit) for the period. It should be noted that increases in liabilities will result in decreases in surplus and vice versa. These reasonable possible changes in key variables do not result in any changes directly in reserves.

10. Net contribution income

	2008 R'000	2007 R'000
Net contribution income	**585 472**	526 133

11. Relevant healthcare expenditure

	Notes	2008 R'000	2007 R'000
Current year claims paid		**528 578**	462 782
Movement in outstanding claims provision		**(326)**	7 335
Payments in respect of prior year	9	**(35 486)**	(27 197)
Under/(over) provision in prior year	9	**1 386**	432
Adjustment for current year	9	**33 774**	34 100
Claims incurred		**528 252**	470 117
Less: Third party claim recoveries		**(242)**	(1 061)
		528 010	**469 056**

12. Managed care: Management services

	2008 R'000	2007 R'000
Hospital pre-authorisation, case and disease management	**6 526**	5 043
Pharmacy benefit and clinical risk management services	**3 927**	3 686
Emergency medical transportation service	**248**	257
Travel insurance	**511**	434
Optical management	**333**	304
Dental benefit management	**346**	-
Pathology management	**117**	-
	12 008	**9 724**

13. Administration expenditure

	2008 R'000	2007 R'000
Core administration fee		
PPS Medical Scheme Administrator (Pty) Ltd	**38 113**	37 199
Expenses incurred on change of administrators		
PPS Medical Scheme Administrator (Pty) Ltd	**798**	7 980
Other administration expenses		
Audit fees	**549**	608
Actuarial fees	**536**	359
Association fees	**162**	58
Bank charges	**538**	560
Internal broker consultancy	**2 913**	-
Computer expenses	**103**	83
Council for Medical Schemes expenses	**330**	304
Depreciation	**140**	116
Entertainment	**17**	21
Internal audit fees	**33**	65
Legal fees	**419**	685
Marketing expenses	**4 751**	1 871
Office rental	**409**	-
Principal Officer remuneration	**1 195**	1 062
Printing and stationery	**1 863**	1 922
Professional fees	**202**	228
Professional indemnity insurance premiums	**213**	137
PPS Insurance - other services	**760**	7 837
PPS Medical Scheme Administrator (Pty) Ltd - other services	**701**	-
Repairs and maintenance	**17**	-
Staff remuneration	**2 878**	1 780
Telephone, postage and fax	**736**	414
Travel, accommodation and conferences	**93**	230
Trustees' remuneration and considerations	**1 619**	1 719
Other expenses	**201**	170
	60 289	**65 408**

14. Broker service fees

	2008 R'000	2007 R'000
Brokers fees	**2 934**	2 316
Other distribution costs paid to brokers	**-**	-
	2 934	**2 316**

15. Investment income

	2008 R'000	2007 R'000
Dividend income	**2 020**	913
Interest income	**36 014**	23 976
- Available-for-sale financial assets	**33 687**	21 824
- Call and current bank accounts	**2 327**	2 152
Net realised gains on available-for-sale financial assets	**-**	39 721
	38 034	**64 610**

16. Sundry income

	2008 R'000	2007 R'000
Prescribed amounts written to income	**1 742**	617
Profit on the sale of equipment	**-**	15
	1 742	**632**

17. Asset management fees

	2008 R'000	2007 R'000
Current year expense	**835**	**839**

This expense is charged as a percentage of the total value of investments managed by the asset management company.

18. Trustee and committee remuneration

The following table records the remuneration and consideration paid to Trustees and other committee members during 2008:

31 December 2008	Fees for meeting attendance	Fees for holding of office	Fees for consultancy services	Allowances	Total remuneration	Training	Conference fees	Travel and accommodation	Other disbursements and reimbursements	**Total considerations**
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	**Rand**
Dr JB Bekker*	36 500				36 500			23 839		**60 339**
Dr MM Bhikhoo*	175 425				175 425			8 867		**184 292**
Mr M Brown	28 000				28 000			3 888		**31 888**
Dr SA Craven*	73 400				73 400			33 959		**107 359**
Mr E Huggett*	68 400				68 400			8 380		**76 780**
Mr KG Mockler	34 500		31 480		65 980			13 304		**79 284**
Dr E Nkosi*	80 900				80 900			4 367		**85 267**
Dr Y Omar Carrim	13 500				13 500			2 156		**15 656**
Ms EL Prins*	172 105	38 500			210 605	490	4 515	33 245		**248 855**
Dr RD Shuttleworth*	74 400				74 400			37 770		**112 170**
Mr RN Theunissen*	113 980				113 980			4 585		**118 565**
Dr EJ Thorburn*	222 530	55 000			277 530		4 515	33 965		**316 010**
Dr HS van Riet*	75 900				75 900			44 554		**120 454**
Mr G Warrender*	58 900				58 900			3 192		**62 092**
Total	1 228 440	93 500	31 480		1 353 420	490	9 030	256 071		**1 619 011**

* Members of the Board of Trustees in office during the year. Trustee appointment, election and resignation dates are disclosed in the Report of the Board of Trustees.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2008

18. Trustees and committee remuneration *(continued)*

The following table records the remuneration and consideration paid to Trustees and other committee members during 2007:

31 December 2007	Fees for meeting attendance	Fees for holding of office	Fees for consultancy services	Allowances	Total remuneration	Training	Conference fees	Travel and accommodation	Other disbursements and reimbursements	**Total considerations**
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	**Rand**
Dr MM Bhikhoo*	182 000				182 000		4 843	20 592		**207 435**
Mr M Brown	15 925				15 925			1 570		**17 495**
Dr SA Craven*	79 600				79 600			58 196		**137 796**
Ms G Ho-Tong	5 000				5 000			144		**5 144**
Mr E Huggett*	46 700				46 700			18 228		**64 928**
Mr KG Mockler	36 900		22 200		59 100			9 932		**69 032**
Dr E Nkosi*	44 900				44 900			15 708		**60 608**
Dr Y Omar Carrim*	24 100				24 100			2 820		**26 920**
Ms EL Prins*	166 380	17 500			183 880		19 990	27 633		**231 503**
Ms FK Robertson*	30 600	15 000			45 600			2 304		**47 904**
Dr RD Shuttleworth*	67 300				67 300			56 880		**124 180**
Mr R Stoutjesdyk*	22 400				22 400			1 651		**24 051**
Mr RN Theunissen*	57 150				57 150			15 348		**72 498**
Dr EJ Thorburn*	204 680	49 500			254 180	1 800	11 220	34 296		**301 496**
Dr HS van Riet*	90 050				90 050			72 522		**162 572**
Mr G Warrender*	145 000				145 000			20 664		**165 664**
Total	1 218 685	82 000	22 200		1 322 885	1 800	36 053	358 488		**1 719 226**

* Members of the Board of Trustees in office during the year. Trustee appointment, election and resignation dates are disclosed in the Report of the Board of Trustees.

19. Cash generated from operations per Cash Flow Statement

	Notes	2008 R'000	2007 R'000
Net surplus for the year		**4 046**	41 531
Adjustments for:			
- Depreciation	13	**140**	116
- Interest received	15	**(36 014)**	(23 976)
- Dividend income	15	**(2 020)**	(913)
- Realised gain on disposal of available-for-sale financial assets	15	**-**	(39 721)
- Profit on the sale of equipment	16	**-**	15
- Decrease in provision for impairment		**(70)**	(250)
- (Decrease)/increase in outstanding claims provision		**(326)**	7 334
Cash flows from operations before working capital changes		**(34 244)**	(15 864)
Changes in working capital		**(1 397)**	5 438
(Increase)/decrease in accounts receivable	5	**(1 109)**	(506)
(Decrease)/increase in accounts payable	8	**(288)**	5 944
Cash (utilised)/generated in operations		**(35 641)**	**(10 426)**

20. Surplus/(deficit) from operations per benefit option

The Scheme offers five benefit options which have the following principal features:

- **ProPinnacle** – Comprehensive in-hospital cover in private wards, and comprehensive chronic and day-to-day cover. GP and specialist costs covered at Profmed Premium Tariff rates (300% of NHRPL*).
- **ProSecure Plus** – Comprehensive in-hospital cover and private ward rates for maternity (post-delivery). Chronic and day-to-day medical expenses and cover over and above the prescribed minimum benefits. In-hospital GP and specialist costs covered at Profmed Premium Tariff rates (300% of NHRPL*).
- **ProSecure** – Comprehensive in-hospital cover, and chronic and day-to-day medical expenses and cover over and above the prescribed minimum benefits.
- **ProActive Plus** – Comprehensive in-hospital benefits, and cover for prescribed minimum benefits. In-hospital GP and specialist costs covered at Profmed Premium Tariff rates (300% of NHRPL*).
- **ProActive** – Comprehensive in-hospital benefits, and cover for prescribed minimum benefits.

*National Health Reference Price List

2008	ProPinnacle	ProSecure Plus	ProSecure	ProActive Plus	ProActive	Total R'000
Net contribution income	141 342	56 506	201 575	28 482	157 567	585 472
Relevant healthcare expenditure	(142 076)	(61 299)	(201 136)	(20 121)	(103 378)	(528 010)
Claims incurred	(142 119)	(61 303)	(201 289)	(20 121)	(103 420)	(528 252)
Third party claim recoveries	43	4	153	-	42	242
Gross healthcare result	(734)	(4 793)	439	8 361	54 189	57 462
Managed care: Management services	(1 412)	(950)	(3 567)	(964)	(5 115)	(12 008)
Administration expenditure	(7 088)	(4 773)	(17 906)	(4 839)	(25 683)	(60 289)
Broker service fees	(345)	(232)	(872)	(236)	(1 249)	(2 934)
Net impairment losses on healthcare receivables	5	3	13	3	18	42
Net healthcare result	**(9 574)**	**(10 745)**	**(21 893)**	**2 325**	**22 160**	**(17 727)**
Average number of members during the year	2 809	1 892	7 097	1 918	10 177	23 893

The allocation of the non-healthcare expenses across the options is based on the average number of principal members per option during the year.

2007	ProPinnacle	ProSecure Plus	ProSecure	ProActive Plus	ProActive	Total R'000
Net contribution income	127 994	41 065	185 637	20 083	151 354	526 133
Relevant healthcare expenditure	(133 899)	(46 101)	(181 597)	(13 094)	(94 365)	(469 056)
Claims incurred	(134 090)	(46 342)	(181 930)	(13 117)	(94 638)	(470 117)
Third party claim recoveries	191	241	333	23	273	1 061
Gross healthcare result	(5 905)	(5 036)	4 040	6 989	56 989	57 077
Managed care: Management services	(1 185)	(622)	(2 900)	(579)	(4 438)	(9 724)
Broker service fees	(282)	(148)	(691)	(138)	(1 057)	(2 316)
Administration expenditure	(7 973)	(4 186)	(19 512)	(3 892)	(29 845)	(65 408)
Net impairment losses on healthcare receivables	30	16	73	15	111	245
Net healthcare result	**(15 315)**	**(9 976)**	**(18 990)**	**2 395**	**21 760**	**(20 126)**
Average number of members during the year	2 903	1 524	7 104	1 417	10 866	23 814

The allocation of the non-healthcare expenses across the options is based on the average number of principal members per option during the year.

21. Related party transactions

The Scheme is controlled by the Board of Trustees, fifty percent are elected by the members of the Scheme and fifty percent are appointed by the Board of Trustees.

Parties with significant influence over the Scheme

Administration fees were paid to the administrator, PPS Medical Scheme Administrator (Proprietary) Limited, a wholly-owned subsidiary of PPS Insurance Company Limited.

The administrator has significant influence over the Scheme as the administrator participates in the Scheme's financial and operating policy decisions, but does not control the Scheme. The administrator provides administration services.

Administration fees were charged in line with market-related rates on an arms-length basis.

21. Related party transactions *(continued)*

Transactions with entities that have significant influence over the Scheme

	Notes	2008 R'000	2007 R'000
Income Statement			
PPS Medical Scheme Administrator: Administration fees	13	**38 113**	37 199
PPS Medical Scheme Administrator: Non-recurring costs with change of the administrator	13	**798**	7 980
PPS Insurance Company Ltd: Other services	13	**701**	7 837
Balance Sheet			
Balance due to PPS Insurance Company Ltd at year-end		**15**	852
Balance due to PPS Medical Scheme Administrator (Pty) Ltd at year-end		**1 417**	-

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

Administration agreement

The administration agreement is in terms of the Rules of the Scheme and in accordance with instructions given by the Board of Trustees. The agreement is automatically renewed each year unless notification of termination is received or following the cancellation of the administrator's accreditation or the issue of a lawful directive to this effect by the Council for Medical Schemes in terms of the Medical Schemes Act 131 of 1998, as amended. The outstanding balance bears no interest and is due within 30 days.

Key management personnel and their close family members

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board of Trustees and the Principal Officer. The disclosure deals with full-time personnel that are compensated on a salary basis (Principal Officer), and part-time personnel that are compensated on a fee basis (Board of Trustees).

Close family members include close family members of the Board of Trustees and Principal Officer.

Transactions with related parties' key management personnel (Board of Trustees and Principal Officer) and their close family members

	2008 R'000	2007 R'000
Income Statement		
Remuneration	**2 899**	2 781
Contributions received	**251**	233
Claims incurred	**(167)**	(150)
Balance Sheet		
Contribution debtors	**-**	-
Claims reported not yet paid	**-**	-

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

Transaction	Nature of transactions and terms and conditions thereof
Contributions received	This constitutes the contributions paid by the related party as a member of the Scheme, in their individual capacity. All contributions were on the same terms as applicable to other members.
Claims incurred	This constitutes amounts claimed by the related parties, in their individual capacity as members of the Scheme. All claims were paid out in terms of the Rules of the Scheme, as applicable to other members.
Contribution debtor	This constitutes outstanding contributions receivable. The amounts are due immediately. No impairment provisions have been raised on these amounts.
Claims reported not yet paid	These are claims that have been reported, but not yet paid due to the fact that the Scheme's year-end fell between the claims payment runs. All claims are settled within 30 days of being received, as applicable to third parties or other members.

22. Commitments

The Scheme had not made any commitments for future capital or lease payments as at year-end.

23. Events after the reporting period

There have been no adjusting or non-adjusting events that have occurred between the accounting date and the date of this report which affected the 2008 results.

24. Guarantees

The Scheme did not receive guarantees from third parties in terms of Section 33(3) of the Medical Schemes Act.

25. Financial risk management

25.1 Financial risk factors

The Scheme's activities expose it to a variety of financial risks, including the effects of changes in the equity market price and interest rates. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are liquidity risk, credit risk, interest rate risk and market risk. 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, which the Scheme holds to meet its obligations to its members.

Risk management and investment decisions are carried out by the Board, under the guidance and policies approved by the Board of Trustees. The Board identifies and evaluates financial risks associated with the Scheme's investment portfolio.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity. The Board of Trustees approves all of these written policies.

25.2 Market risk

a) Interest rate risk

Interest rate risk is the exposure that the Scheme has to changes in interest rates. The main exposure to the Scheme would be a reduction in interest income on investments if interest rates were to decrease.

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

The Scheme's investment manager's mandate is for a 60% to 80% money market portfolio. The portfolio invests in bonds and cash instruments.

The table below summarises the Scheme's exposure to interest rate risk. Included in the table are the Scheme's money market securities, fixed deposits, deposits on call and current bank accounts at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	Up to one month	1-3 months	4-12 months	1-5 years	Total
2008					
Total exposure - R'000	160 962	37 516	74 913	-	273 391
2007					
Total exposure - R'000	75 419	28 467	153 782	-	257 668

The amounts in the previous table are classified as follows:

	Notes	2008 R'000	2007 R'000
Available-for-sale financial assets			
- Non-current	4	**-**	-
- Current	4	**121 993**	153 782
Cash and cash equivalents	6	**151 398**	103 886
		273 391	**257 668**

Interest rate risk sensitivity analysis:
A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) accumulated funds and the surplus by the amounts shown below. The analysis assumes that all other variables remain constant. The analysis is performed from the date that the current asset managers were appointed.

	Surplus or deficit (R'000)		Accumulated funds (R'000)	
	100bp increase	100bp decrease	100bp increase	100bp decrease
2008				
Available-for-sale financial assets	6 858	1 234	304 340	298 716
2007				
Available-for-sale financial assets	44 055	38 996	300 006	294 947

b) Currency risk
All of the Scheme's investments and benefits are Rand-denominated and therefore do not have significant net currency risk.

c) Price risk
The Scheme is exposed to equity securities price risk, because of investments held by the Scheme and classified on the Balance Sheet as Available-for-sale financial assets. The Scheme is not exposed to commodity risk. To manage the price risk arising from investment in equity securities, the Scheme diversifies its portfolio within the limits prescribed by the Medical Schemes Act and Regulations.

The table below summarises the Scheme's exposure to equity securities price risk.

	Up to one month	1-3 months	4-12 months	1-5 years	Total
2008					
Total exposure - R'000	-	-	-	79 323	79 323
2007					
Total exposure - R'000	-	-	-	95 238	95 238

25.3 Credit risk

Credit risk is the risk of loss arising from the inability of a third party to service their debt obligations. The Scheme's principal financial assets are cash and cash equivalents, accounts receivable and investments. The Scheme's credit risk relates primarily to its accounts receivable.

The receivables are in respect of:
- receivables for contributions due from members;
- receivables for amounts recoverable from service providers and accrued interest.

The Scheme manages credit risk by:
- actively pursuing all contributions not received after three days of becoming due, as required by Section 26(7) of the Medical Schemes Act 131 of 1998, as amended;
- suspending benefits on all member accounts when contributions have not been received for 30 days;
- terminating benefits on all member accounts when contributions have not been received for 60 days;
- ageing and pursuing unpaid accounts on a monthly basis.

The amounts presented in the Balance Sheet are net of provision for impairment, estimated by the Scheme's management, based on prior experience and the current economic environment.

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

There is no significant concentration of credit risk with respect to receivables, as the Scheme has a large number of members who are nationally dispersed.

Exposure to credit risk:
For the disclosure of the maximum exposure to credit risk on accounts receivable, available-for-sale financial assets and cash and cash equivalents, please refer to Note 3.

Accounts receivable that are less than 60 days past due are not considered impaired. The ageing analysis of these receivables is as follows:

	2008 R'000	2007 R'000
Fully performing	**-**	-
Past due: 4-30 days	**800**	585
Past due: 31-60 days	**19**	40
Impaired	**140**	210
Net impairment losses on healthcare receivables	**28**	5
Movements on the impairment provision of accounts receivable are as follows:		
At 1 January	**210**	460
Reduction in the provision for receivable impairment	**(70)**	(250)
At 31 December	**140**	**210**

25.4 Liquidity risk

The Scheme manages liquidity risk by monitoring cash flows. The Scheme is exposed to daily calls on its available cash resources mainly from claims. Liquidity risk is the risk that cash may not be available to pay obligations when they are due at a reasonable cost.

The availability of funding through liquid holding cash positions with various financial institutions ensures that the Scheme has the ability to fund the day-to-day operations of the Scheme. The Scheme has complied with the requirements regarding the nature and categories of assets as prescribed by Section 35 and Regulation 30 of the Medical Schemes Act 131 of 1998, as amended.

25.5 Capital management

The Scheme's objectives when managing capital are to maintain the capital requirements of the Medical Schemes Act 131 of 1998, as amended, and to safeguard the Scheme's ability to continue as a going concern in order to provide benefits for its stakeholders.

The risk is that there are insufficient reserves to provide for adverse variations on actual and future experience. The Medical Schemes Act 131 of 1998, as amended, requires a minimum ratio of accumulated funds expressed as a percentage of gross premiums to be 25%. The Scheme's accumulated funds ratio was 51.50% as at 31 December 2008 and 56.54% at 31 December 2007. The accumulated funds ratio is calculated as follows:

	2008 R'000	2007 R'000
Total members' funds per Balance Sheet	**301 528**	299 149
Less: Reserve for unrealised investment gains	-	1 667
Accumulated funds per Regulation 29 of the Act	**301 528**	**297 482**
Annual contribution income per Income Statement	**585 472**	**526 133**
Accumulated funds ratio calculated as the ratio of accumulated funds/gross annual contributions x 100	**51.50%**	**56.54%**

25.6 Investment risk

Investment risk is the risk that the investment returns on accumulated assets will not be sufficient to cover future liabilities. Continuous monitoring takes place to ensure that appropriate assets are held where the Scheme's liabilities are dependent upon the performance of the investment portfolio and that a suitable match of assets exists for all liabilities.

During the first quarter of the previous year the Scheme appointed Investec Private Bank as the asset managers.

25.6 Investment risk *(continued)*

Breakdown of investments

Money market portfolio:

The Scheme's investment manager's mandate is for a 60% to 80% money market portfolio. The portfolio invests in bonds and cash instruments.

The investments are subject to a credit rating of at least a F1+ short-term credit rating and a long-term credit rating of AA or higher.

For diversification purposes corporate bonds, Government bonds, parastatal and securitisation bonds are allowed per the Act, but the maximum is limited. The limit approved by the Trustees is a maximum of 10% per institution.

The performance of the portfolio has been measured against the Alexander Forbes Short Term Fixed Interest Money Market Index (known as the Stefi Index). This is a composite index consisting of four different sector indices which represents a maturity spectrum over 3, 6, 9 and 12 months.

Equity portfolio:

The Scheme's investment manager's mandate has been to invest in a fully discretionary equity portfolio.

The portfolio may only be invested in South African equities, with cash held as working capital only. The portfolio is prohibited from investing in PPS Insurance Company Ltd or its subsidiaries.

The assets of the portfolio must be invested in accordance with Annexure B of the Regulations of the Medical Schemes Act 131 of 1998.

The performance of this portfolio is measured against the JSE All Share Index. The table below indicates the sensitivity of the surplus of the Scheme to movement in the JSE All Share Index from the date that the current asset managers were appointed.

	Surplus or deficit					
	Increase in market (R'000)			Decrease in market (R'000)		
	30%	15%	5%	5%	15%	30%
2008						
Equity portfolio	28 970	17 615	10 275	2 935	(4 405)	(15 415)
2007						
Equity portfolio	66 828	53 103	46 082	35 328	26 328	12 828

26. Critical accounting judgements and areas of key sources of estimation uncertainty

The Scheme makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year, are discussed below.

26.1 Outstanding claims provision

The outstanding claims provision is a provision made for the estimated cost of healthcare benefits that had occurred before the year-end, but that had not been reported to the Scheme by that date. This provision is determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the nature and number of members according to gender and age, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim.

The outstanding claims provision is reduced by the estimated recoveries from members for co-payments.

27. Insurance risk management

The primary insurance activity carried out by the Scheme relates to assuming the risk of loss from members and their dependants as a result of claims that are directly subject to the risk. These risks relate to the insured health-care events of the Scheme's members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contracts. The Scheme also has exposure to market risk through its insurance and investment activities.

The Board of Trustees has developed and approved a documented policy for the acceptance and management of insurance risk to which the Scheme is exposed. Reference has also been made to the requirements of the Medical Schemes Act 131 of 1998, as amended, in compiling the insurance risk-management policy. This policy is reviewed annually and the benefit options provided to the members are structured to fall within the acceptable insurance risk levels specified. The annual business plan is structured around the insurance risk-management policy.

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, as well as the monitoring of emerging legislative, environmental and actuarial issues.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, comparison of budgeted versus actual claims on a regular basis, sensitivity analyses, scenario analyses and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts, using established actuarial principles. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

27. Insurance risk management *(continued)*

The following tables summarise the concentration of insurance risk, with reference to the carrying amount of the insurance claims incurred, by age group and in relation to the type of risk covered/benefits provided. Where appropriate, prescribed minimum benefits (PMB) and non-PMB claims have been split.

Concentration of insurance risk

Claims incurred for 2008 service year	In-hospital R'000	Chronic R'000	Day-to-day R'000	Other R'000	Total R'000
Age grouping (in years)					
< 26	46 584	3 682	20 092	3 749	74 107
26 - 34	24 666	2 854	7 489	983	35 992
35 - 49	58 347	7 073	19 411	3 115	87 946
50 - 64	103 213	20 047	35 399	7 865	166 524
>65	111 307	20 218	26 700	5 759	163 984
Total	**344 117**	**53 874**	**109 091**	**21 471**	**528 553**
Movement in IBNR					(326)
Rectified benefits					25
Claims refund					(242)
Relevant healthcare expenditure (Note 11)					**528 010**

Claims incurred for 2007 service year	In-hospital R'000	Chronic R'000	Day-to-day R'000	Other R'000	Total R'000
Age grouping (in years)					
< 26	43 789	3 715	18 383	4 132	70 019
26 - 34	22 613	2 545	6 397	873	32 428
35 - 49	50 363	6 507	17 856	4 585	79 311
50 - 64	84 996	17 972	30 990	9 526	143 484
>65	90 555	17 990	21 271	7 138	136 954
Total	**292 316**	**48 730**	**94 897**	**26 254**	**462 196**
Movement in IBNR					7 767
Rectified benefits					154
Claims refund					(1 061)
Relevant healthcare expenditure (Note 11)					**469 056**

In-hospital benefits cover all costs incurred by members while they are in hospital to receive pre-authorised treatment for certain medical conditions.

Chronic benefits cover the cost of certain prescribed medicines consumed by members for chronic conditions/diseases, such as high blood pressure, cholesterol and asthma.

Day-to-day benefits cover the cost (up to 100% of the National Health Reference Price List tariff) of all out-of-hospital medical attention, such as visits to general practitioners and dentists and prescribed non-chronic medicines.

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 the variability of the outcome is reduced.

The strategy is set out in the annual business plan, which specifies the benefits to be provided by each option, the preferred target market and demographic split of this market.

All the contracts are annual in nature and the Scheme has the right to change the terms and conditions of the contracts at renewal. Management information including contribution income and claims ratios by option, target market and demographic split, is reviewed monthly. There is also an underwriting review programme that reviews a sample of contracts on a quarterly basis to ensure adherence to the Scheme's objectives.

Risk transfer arrangements
The Scheme did not reinsure any of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Scheme did not have any capitation agreements with any providers of service.

Claims development
Claims development tables have not been presented as the uncertainty regarding the amounts and timing of claims payments is typically resolved within a year. In the majority of cases, claims are resolved within four months from the time they are reported to the Scheme. At year-end, a provision is made for those claims outstanding that have not yet been reported. Details on the subsequent development in respect thereof for the last two years are shown in Note 9.

28. Contingent asset

The Scheme grants assistance to its members in defraying expenditure incurred in connection with rendering of any relevant health service. Such expenditure may be in connection with a claim that is also made to the Road Accident Fund (RAF), administered in terms of the Road Accident Fund Act No 56 of 1996 (RAFA). If the member is reimbursed by the RAF, they are obliged contractually to cede that payment to the Scheme to the extent that they have already been compensated. The outstanding amount at year-end amounts to R3 950 866 (2007: R4 676 037).

29. Non-compliance matters

In terms of Section 26(7) of the Medical Schemes Act 131 of 1998, contribution income shall be received within three days of becoming due. There were instances where the Scheme did not receive all contributions within three days of becoming due.

In terms of Section 33(2) of the Medical Schemes Act 131 of 1998, each benefit option shall be self-supporting in terms of membership, financial performance and be financially sound. At the end of the year three of the options had deficits.

Regulation 28(1) of the Medical Schemes Act 131 of 1998, states that "No person may be compensated by a medical scheme in terms of section 65 for acting as a broker unless such person enters into a prior written agreement with the medical scheme concerned." There were instances where contracts were not in place during the year. The Scheme has rectified the situation.

In terms of Regulation 10(7) of the Medical Schemes Act 131 of 1998, the Scheme must be able to provide details of amounts paid into members' personal medical savings accounts to the Registrar. The Scheme has an unidentified savings balance at year-end.

FORM OF PROXY

for the Profmed Annual General Meeting to be held at 15:30 on 28 May 2009.

I, ______________________________________ , membership no. __________________________ ,

being a current and fully-paid member of Profmed, hereby appoint ________________________________ ,

membership no. _______________________ , or failing him the Chairman of the meeting, as my proxy to attend, and speak, and vote on a poll for me and on my behalf at the meeting of Profmed to be held at 15:30 on 28 May 2009 at 15 Eton Road, Parktown, Johannesburg, and at any adjournment thereof, as follows:

No.	Business	In favour of	Against	Abstain
1.	Resolution for the adoption of the Annual Financial Statements for the year ended 31 December 2008 (including the reports of the trustees and the auditors)			
2.	Resolution for the re-appointment of the auditors			
3.	Confirmation of remuneration of trustees			

Indicate instruction to proxy by way of a cross ☒ in the relevant space provided above.

Signed this ______________________________ day of ______________________________ 2009.

Signature: ______________________________

Notes

1. A member entitled to attend and vote is entitled to appoint a proxy to attend, speak and, on a poll, vote in his stead, provided such proxy is also a current and fully-paid member of Profmed.
2. Resolutions referred to in this form are those that must, in accordance with the rules of Profmed, be taken at an annual general meeting and voted upon by all those present at such an annual general meeting.
3. The proxy form must be signed, dated and e-mailed to proxy@profmed.co.za or faxed to 011 628 8917 by not later than 12:00 on the day of the scheduled annual general meeting.
4. The signatory may insert the name of any Profmed member whom the signatory wishes to appoint as his/her proxy in the blank spaces provided for that purpose at the top of the proxy form.
5. The completion and lodging of this Form of Proxy will not preclude the signatory from attending the meeting and speaking and voting in person to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.
6. If the signatory does not indicate in the appropriate place on the face of this form how he/she wishes to vote in respect of any resolution, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution whether or not express reference is made to the nature of such a resolution in this form.

15 Eton Road
Parktown
Johannesburg
2193

Tel: 011 628 8900
Fax: 011 628 8901

www.profmed.co.za