



Be Smart. **Keep it Simple.**



ANNUAL GENERAL
MEETING **2017**

KeyHealth
MEDICAL SCHEME





ANNUAL GENERAL MEETING 2017

Dear KeyHealth member,

NOTICE – 10th ANNUAL GENERAL MEETING: FRIDAY, 18 AUGUST 2017

Notice is hereby given of the 10th Annual General Meeting of KeyHealth Medical Scheme to be held at 11:00 on Friday, 18 August 2017 at the Riverside Hotel, 10 Kenneth Kaunda Road, Durban North, Kwazulu Natal.

Agenda for the meeting

1. Welcome and quorum
2. Apologies
3. Adoption of the agenda
4. Confirmation of the Minutes of the 9th Annual General Meeting of KeyHealth held on 19 August 2016 in Potchefstroom.
5. Chairperson's review
6. Tabling and acceptance of the annual financial statements
7. Governance
 - 7.1 Remuneration Policy of the Board of Trustees of KeyHealth
 - 7.2 Appointment of auditors
8. Acknowledgements
9. Closure

The 2016 Audited Financial Statements and Trustees' report will be available on our website www.keyhealthmedical.co.za.

A proxy form is attached should you not be able to attend the Annual General Meeting on 18 August 2017 and wish to assign your vote to a representative to act on your behalf. As a control measure your completed proxy form must reach the Scheme before 12:00 on Monday, 14 August 2017. The forms can either be emailed to proxies@keymed.co.za or delivered by hand at the offices situated at 86 Koranna Avenue, Doringkloof, Centurion. (Kindly note that incomplete forms will be regarded as invalid and no proxy forms will be accepted at the Annual General Meeting.)

Trust that you will have a pleasant meeting.

J.H. GREYLING
CHAIRPERSON
KEYHEALTH MEDICAL SCHEME

Many members are not afforded the opportunity of attending the KeyHealth Annual General Meeting. In an effort to provide members with the opportunity to make input into that meeting, pre-AGM meetings will be held around the country in various centers. At this meeting the full agenda of the Annual General Meeting will be discussed. This will provide members that cannot attend the AGM the opportunity to become part of the process.

Please note the following dates and venues for these pre-AGM meetings –

DATE	VENUE	TIME
30 June 2017	The Beach Hotel, Marine Drive, Summerstrand, Port Elizabeth	11:00
6 July 2017	Fountains Hotel, 1 St Georges Mall, City Centre, Cape Town	14:00
11 July 2017	Pretoria Municipal Recreation Club. 351 Annie Botha Ave, Riviera	11:00
12 July 2017	Fusion Boutique Hotel, 4 Schoeman Street, Polokwane	11:00
13 July 2017	Community Hall, Mbombela Civic Centre, 1 Nel Street, Nelspruit	11:00
25 July 2017	Quest Conference Estate, c/o Curie Boulevard & Goodyear Street, Vanderbijlpark	11:00
26 July 2017	Indaba Conference Centre, 17 Bantjes Street, Lichtenburg	11:00

MINUTES OF THE NINTH ANNUAL GENERAL MEETING OF KEYHEALTH MEDICAL SCHEME

HELD ON 19 AUGUST 2016 IN POTCHEFSTROOM AT 11:06

1. REGISTRATION

A schedule of members who attended the meeting is contained in an attendance register and copies thereof attached to the original copy of the minutes.

2. WELCOME AND QUORUM

After introducing himself to the meeting the Chairperson requested the Chief Executive Officer to proceed to read the notice of the meeting whereafter he requested Mr J.P. Deetlefs to open the proceedings with a prayer.

The Chairperson welcomed the brokers of the Scheme, the Chief Executive Officer, the Deputy Chairperson and Trustees as well as all the members of the Scheme to the meeting. He extended a special word of welcome to Mr T. Metsileng from the Council for Medical Schemes who will oversee the annual general meeting as an observer to ensure whether the Scheme adheres to legislation.

The Chairperson remarked that according to his knowledge that it was the first time that the Scheme held an annual general meeting in Potchefstroom which he was privileged to chair. He said that in line with the inclusive approach to take the Scheme to the members that seven pre-AGM meetings were held in various centers, which were attended by 257 members and confirmed that in accordance with the Scheme rules that a quorum was present to continue with the proceedings.

3. APOLOGIES

Scheme members who submitted proxies (total of 38 proxies).

Ms N. Klaas - Human Resources Manager: Tlokwe City Council

P. Pretorius - Human Resources Department: Tlokwe City Council

4. ADOPTION OF THE AGENDA

The agenda of the meeting was adopted without any amendments or additional items.

5. CONFIRMATION OF THE MINUTES OF THE 8th ANNUAL GENERAL MEETING OF KEYHEALTH HELD ON 24 JULY 2015 IN CAPE TOWN

RESOLVED:

- 5.1 That the Minutes of the 8th Annual General Meeting of Key-Health held on 24 July 2015 be approved as a true reflection of the proceedings of the meeting.

6. CHAIRPERSON'S REVIEW

The Chairperson gave an overview on the year under review and said that the solvency achieved at the end of 2015 of 32.9% was an indication of the financial sustainability of the Scheme. He said the increased claims ratio was a challenge to the Scheme and reiterated the importance of healthy membership growth as well as the retention of members. He complimented the efforts of both the Marketing and Distribution Departments as well as the broker force which focused on membership growth.

He urged members to promote the Scheme under their children and grandchildren and to refer any queries and problems they may have to the Administration for assistance rather than creating a negative image of the Scheme. The Chairperson referred to the healthcare costs as well as the age profile and said that these were two challenges that the Scheme had to manage responsibly. He briefly referred to the contribution utilisation with the non-healthcare costs being below the industry norm of 10%.

The Chairperson then introduced the Trustees of the



Scheme to the meeting and assured the members in attendance that the Trustees were knowledgeable and capable to manage KeyHealth in a responsible manner in the best interest of all members, which review was accepted as such by the meeting.

7. **ACCEPTANCE OF THE ANNUAL FINANCIAL STATEMENTS**

The Chairperson requested the Head: Finance, Risk and Audit to present the extract from the Annual Financial Statements for the period ended 31 December 2015 to the meeting. The Head: Finance, Risk and Audit mentioned that each member should have received a copy of the full set of Annual Financial Statements upon registration but that the document was also available on the Scheme's website.

He mentioned that the extract from the statements is guided by the minimum requirements of the Council for Medical Schemes as well as legislation and proceeded to present the information to the meeting. He briefly gave an explanation on the *Risk transfer arrangements* and highlighted some positives compared to the previous year contained in the *Operational statistics per benefit option* of the Scheme such as the decrease in the *chronic profile* percentage, the decrease in the *pensioners ratio* as well as the increase in the *solvency ratio*.

He referred to the surplus/(deficit) from the operations per benefit option and mentioned that although the Equilibrium and Essence options did not realise surpluses in 2015 these were the two options that, to date, experienced the most growth.

He provided an explanation on the four matters that were identified by the external auditors as being non-compliant to the Medical Scheme Act, 1998 (Act 131 of 1998).

After the presentation on the extract from the Annual Financial Statements for the period ended 31 December 2015 and the questions being raised thereon answered the meeting resolved as follows:

RESOLVED:

- 7.1 That the Financial Statements of KeyHealth for the year ended 31 December 2015 be accepted.

8. **REMUNERATION POLICY OF THE BOARD OF TRUSTEES OF KEYHEALTH**

RESOLVED:

That the Trustee Remuneration structure approved at the Annual General Meeting held in 2015 remain unchanged except for an annual inflationary increase of 7,5% as provided for in the Policy.

9. **APPOINTMENT OF AUDITORS FOR THE YEAR ENDING 31 DECEMBER 2016**

RESOLVED:

- 9.1 That Deloitte and Touche be re-appointed as external auditors of KeyHealth for the audit of the 2016 financial year, in accordance with legislation.

10. **ACKNOWLEDGEMENTS**

Prior to proceeding with the acknowledgements the Chairperson invited questions upon which a concern was raised on the service that was rendered to the Mayor of Dr Kenneth Kaunda District Municipality insofar the registration of a dependant. The Chairperson requested the member to convey the details to one of the Scheme's representatives to investigate and address the matter.

The Chairperson thanked Mr T. Leonard and the staff of the Administrator for their dedication as well as the brokers for their efforts in growing the Scheme's membership.

He thanked the Head: Marketing and Relations, Mr M. Louw and the Head: Distribution, Ms B. van Wyk and their respective teams for their dedication in growing the membership.

He thanked the Head: Finance, Risk and Audit and his staff for the responsible management of the Scheme's finances and the Manager: Administration Services, Ms A. Marren for providing administrative support to the Trustees.

The Chairperson thanked the Chief Executive Officer for his continued efforts and inputs to ensure that KeyHealth remains a competitive brand, which is not always an easy task. He also thanked Mr Metsileng from the Council for Medical Schemes for his attendance.

The Chairperson expressed thanks to the Deputy Chairperson and his fellow Trustees for their continued support.

The Chief Executive Officer thanked the Chairperson for his guidance and leadership whilst member Basson on behalf of the members shared the sentiments expressed by the Chief Executive Officer.

11. **CLOSURE**

The Chairperson once again thanked the members for their inputs and attendance whilst also wishing them a safe journey home.

The meeting closed at 12:00.





CHAIRPERSON'S REVIEW

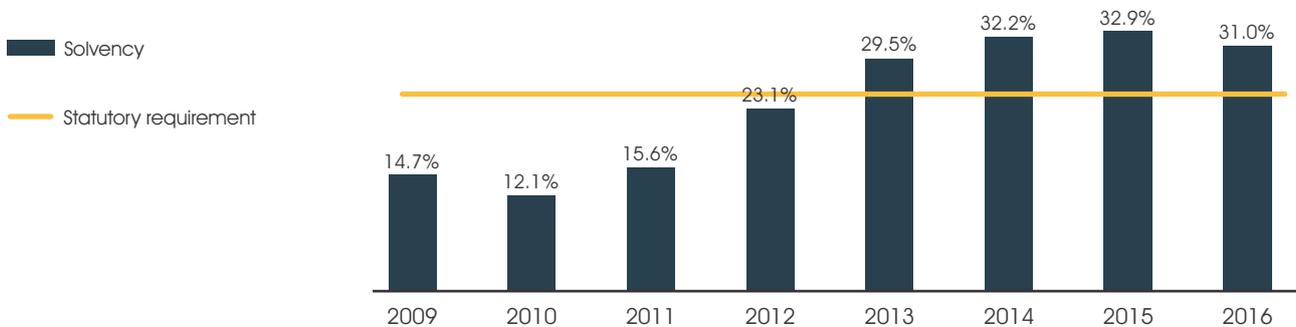
My co-Board Members, our CEO Mr Kruger and Scheme Officials and staff, Service Providers, Brokers and Scheme Members welcome to the Annual General Meeting of KeyHealth for 2017.

The year under review presented no less opportunities than the previous year but the challenges facing medical schemes remain on the rise. According to the 2015-2016 annual report of the Council for Medical Schemes (CMS) the total number of medical schemes remained at 83 in 2015 with a year-on-year decrease in the total number of medical scheme beneficiaries, which marks the first negative growth experienced in the industry since 2004. The CMS report further indicates a slight increase in the average age of beneficiaries as well as the pensioner ratio in general.

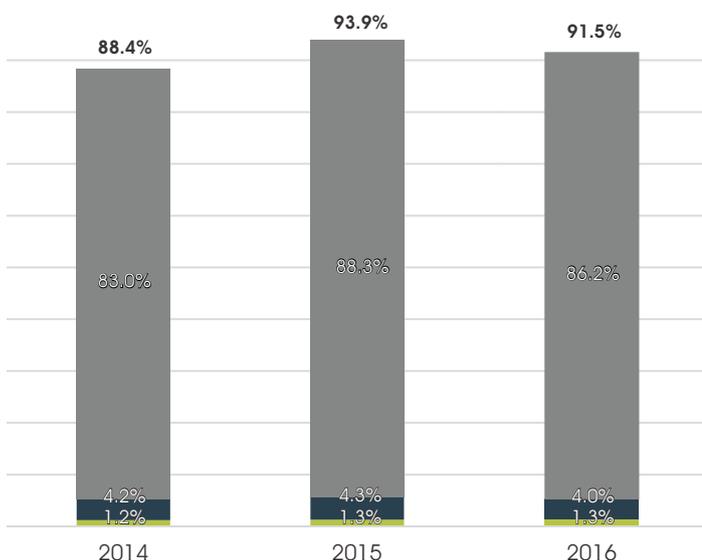
As all medical schemes work on the concept of risk pooling, where the risk contribution charged to members is based on a combination of expected medical and non-healthcare expenses, as well as the returns expected from the scheme's assets the larger the membership, the larger the risk pool of the fund. With all these challenges in mind the Board, the Executive Management team and employees at all levels still need to focus on responsible membership growth, the ultimate goal being to stay in business and maintain a viable Scheme for the members.

SOLVENCY

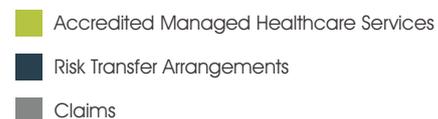
We attained a solvency level of 31.0% at the end of 2016. The solvency at the end of 2015 was 32.9% which exceeded the 25% required in terms of the Medical Schemes Act. The Scheme's success story of 2015 continued during 2016 with the emphasis on effective planning and careful management of the Scheme's risk



CLAIMS RATIO



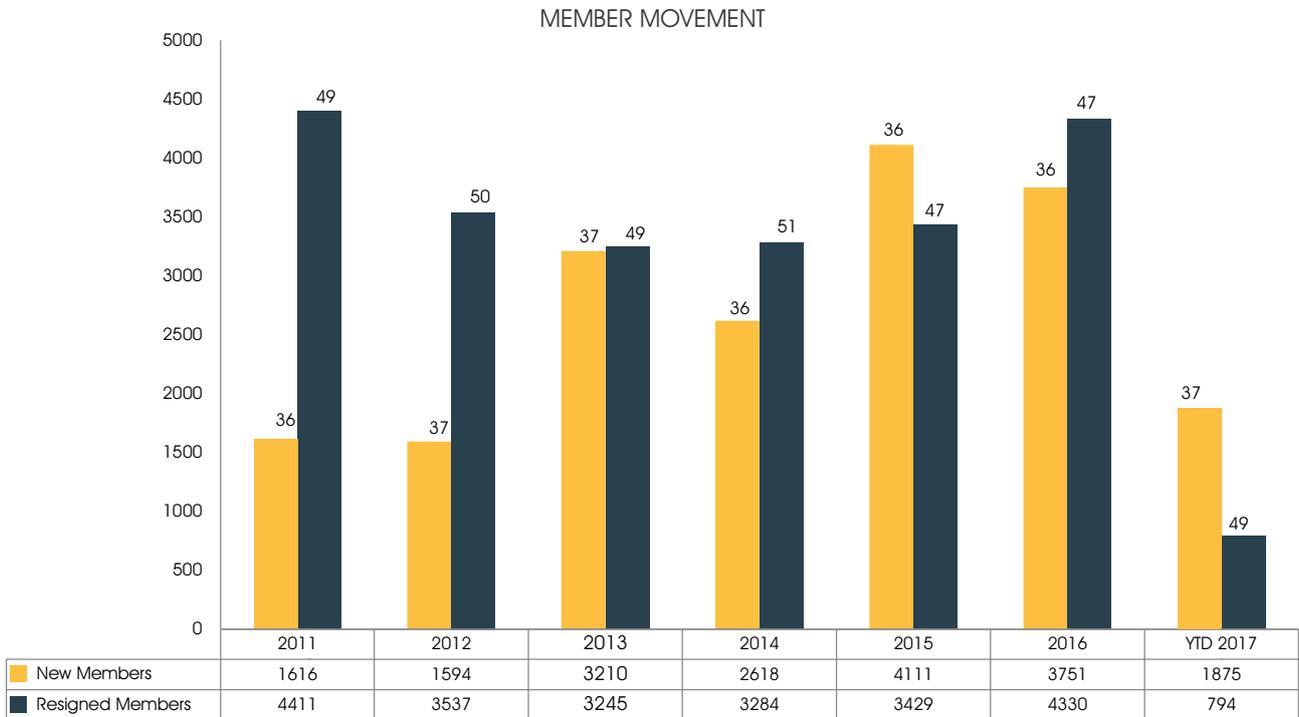
It is important to emphasize the fact that the Scheme's Relevant Healthcare expenditure as a % of gross contributions decreased from 93,9% in 2015 to 91,4% in 2016. In "laymen's terms" the Scheme paid direct benefits on behalf of members/beneficiaries totalling R1605,3 million (2015: R1533,6 million) and indirect benefits that consist of accredited managed healthcare services/risk transfer arrangements totalling R97,7 million (2015: R96,4 million).



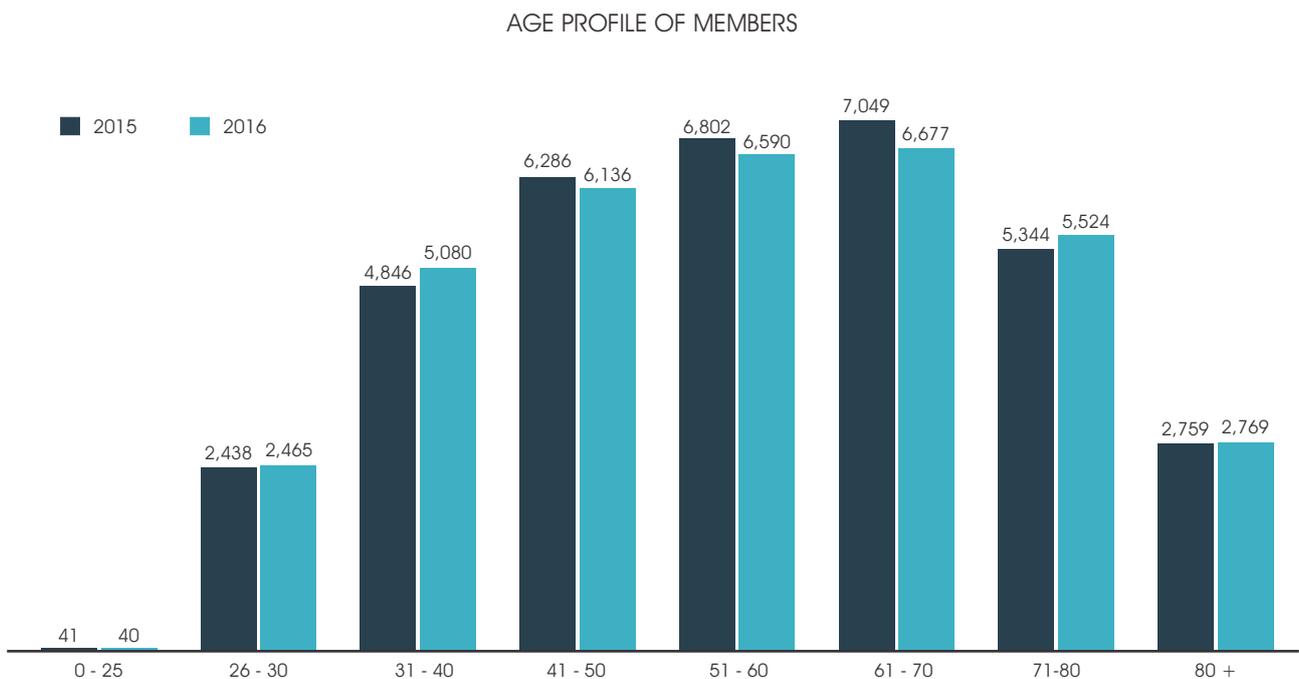
The effective implementation of Managed Care programs as well as relevant High Risk Member Management programs resulted in the average relevant healthcare expenditure per beneficiary to increase from 2015 at a rate of only 5.2%, which is 4.8% less than the medical inflation of 10% during 2016.

MEMBERSHIP

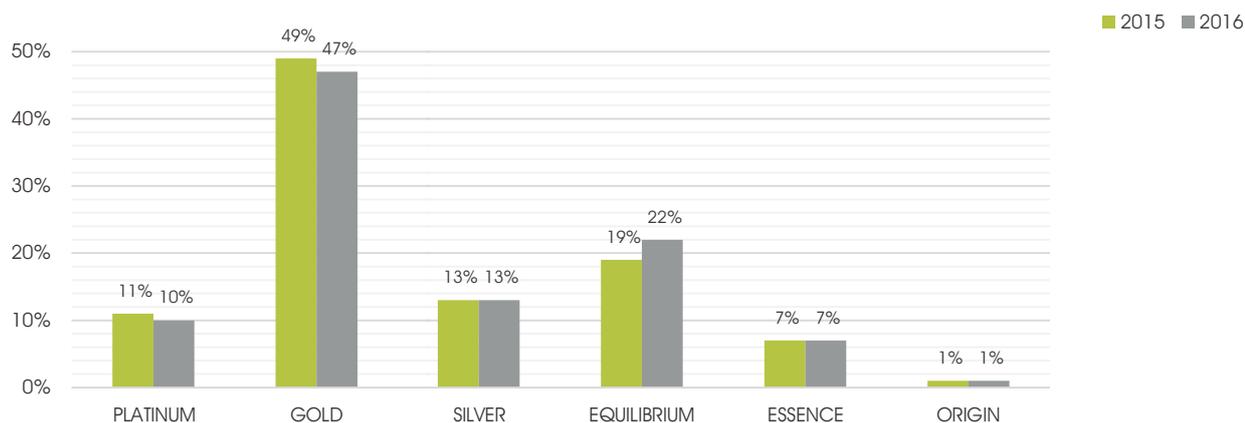
The graph below illustrates a turnaround in member movement since 1 January 2017 with the average age of members joining KeyHealth being 37 years of age. It should also be noted that the average age of members resigning from the Scheme is 49 years.



The current economic realities have put a lot of pressure on consumers and their spending. This has also negatively affected the medical scheme industry. Medical schemes have found it increasingly more difficult to grow with new members with KeyHealth not being exempted from this tendency.



DISTRIBUTION OF MEMBERS PER OPTION



KeyHealth has a very well established broker network that makes a significant contribution to the membership growth of the Scheme. However, the Scheme realised that there are many people in the private sector that do not make use of a broker and that it is important to firstly make these people aware of KeyHealth and its products and secondly to make it as easy as possible for them to join the Scheme. Therefore the focus during this period was to expose as many people as possible to the Scheme's brand in order to generate interest in the Scheme and to convert this interest into actual new members.

In order to achieve this, the Scheme previously established a direct sales department. The function of this department is to ensure that all leads received for potential members are contacted, followed up and eventually converted into new members. However, the success of this department is dependent on the availability of a constant flow of eligible leads. Therefore the majority of marketing activities during 2016 were aimed at trying to ensure that this objective was achieved.

Here are some of the activities that were undertaken during this period:

- The Scheme continued to grow its Social Media presence during 2016. At the end of the year the Scheme's Facebook page reached over 62 000 likes. This platform provides the Scheme with an excellent opportunity to engage with members and potential members through this medium. It is also a consistent source of potential new member leads. KeyHealth continues to be one of the industry leaders in respect of social media.
- A new commercial was produced for television and the campaign launched on various DSTV channels in October 2015. This commercial introduced the expansion of the Scheme's unique Easy-ER benefit to all beneficiaries.
- The Scheme entered into various sponsorship agreements. Apart from contributing to the growth in the awareness of the Scheme's brand, these sponsorships also provides the Scheme with the opportunity to do direct marketing at various events that take place nationally.
- The Scheme's own smartphone application (app) was launched in 2014 and during 2016 further enhancements were made to the app. Members are encouraged to download this free app to their phones in order to experience the added value of this service offering.

FRAUD

KeyHealth Medical Scheme seriously addresses possible fraud issues, by taking pro-active steps. Members are requested to verify the validity of each claim processed and report any possible fraud at 0860 110 820 or send an email to fraud@keyhealthmedical.co.za, which will be handled with the utmost confidentiality.

During the year 2016, 43 possible fraud cases were received (**30 cases** were reported by members via the fraud email address and **13 cases** by members phoning the fraud line) out of a total of 71 cases investigated.

A recent article in Personal Finance of 13 May 2017 entitled "Defrauding medical schemes is not a 'victimless crime'" it was estimated that at least 10 to 15 percent of all claims are fraudulent, abusive or wasteful in nature, which in a R150-billion industry, is a substantial expense. In this article fraud and waste are defined as intentional deception or misrepresentation, misreporting data to increase payments, paying kickbacks to providers for referring patients for services or to entities, or stealing providers' or patients' identities. Every year, medical schemes are cheated out of billions of rands, which results in higher contributions and co-payments for members. Due to a variety of factors healthcare fraud and abuse are hard to contain although the Scheme tries its utmost.

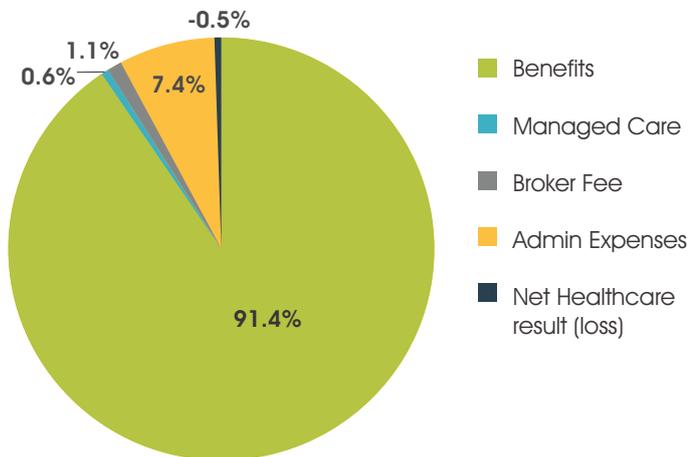
Possible solutions mentioned in the article for stopping medical fraud include:

- making better use of technology;
- higher penalties;
- improved provider enrolment procedures;
- greater rewards for reporting fraud;
- educating beneficiaries; and
- empowering patients and providers so they can identify and report fraud.

The Scheme wants to thank our members for being vigilant and reporting possible fraudulent incidents.

DISTRIBUTION OF CONTRIBUTIONS

The graph below illustrates the distribution of member contributions received by the Scheme:



As can be seen from the above each R 1 of members' contributions is spent as follows:

	2016	2015
Benefits:	R0.91	R 0.94
Non Healthcare:	R0.09	R0.09
Surplus (use reserves)	R0	(R 0.03)

WORD OF APPRECIATION

The finances of the scheme are in good order thanks to the efforts of our Head of Finance, Mr Arni van Rensburg and his dedicated and capable team. Thank you for a great effort.

Our Marketing department under the leadership of Mr Morne Louw has done great work and continues to do so. Members need to know that their Scheme is on the go and good marketing and advertising make this possible.

To Ms Brenda van Wyk the Head of our Distribution Services and her team, who look after our Broker Network and employer groups, a special word of thanks. We couldn't have done it without you.

Our Administrator, PPS Healthcare Administrators, previously known as Professional Medical Scheme Administrators (PMSA) have done us proud and have restored top class service to our members. To Dr Herc Hoffman and his dedicated team of managers and staff a very special word of thanks. Our members appreciate your efforts.

To all of our dedicated service providers, KeyHealth would not have been as successful without your contribution.

To our CEO, Mr Barry Kruger, well done and thank you for creating and maintaining an environment conducive to meeting all challenges. Without your dedication, passion and loyalty to the Scheme, staff and Trustees, we would not have achieved the goals set.

To my fellow Trustees for their support and dedication - thanks for your unique contribution to assist me to lead the Board to greater heights.

In closing I would like to express my special thanks to all who have been involved in the success of KeyHealth. It has been a privilege to be Chairperson of KeyHealth over the last couple of years. It is a great Scheme with strong principles, excellent people and a robust strategy that will ensure continued growth.

Most important are you our members. Thank you for your loyalty and for managing your medical aid needs responsibly. This does not go unnoticed.

Ladies and gentlemen **thank you.**





KEYHEALTH MEDICAL SCHEME

EXTRACTS FROM THE ANNUAL REPORT

for the year ended 31 December **2016**

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DESCRIPTION OF THE MEDICAL SCHEME

Terms of registration

KeyHealth Medical Scheme (the Scheme) is a not-for-profit open medical scheme registered in terms of the Medical Schemes Act, 131 of 1998 as amended. Registration number 1087.

Benefit options within KeyHealth Medical Scheme

The Scheme offered six benefit options for the financial year under review. The options are:

- Platinum
- Gold
- Silver
- Equilibrium
- Essence
- Origin

Savings plan

In order to provide a facility for members to set funds aside to meet future healthcare costs not covered in a benefit option, the Trustees have made savings plan options available to meet this objective.

Members belonging to the Gold and Equilibrium options pay an agreed sum of 11% and 8% of their gross contributions respectively into a savings account so as to help pay for the member's portion of healthcare costs up to a prescribed threshold.

The liability to the members in respect of the savings plan is reflected as a financial liability in the financial statements, repayable in terms of Regulation 10 of the Medical Schemes Act, 131 of 1998 as amended.

In terms of the rules of the Medical Scheme, any advances on savings contributions are funded from the Scheme's funds, and the risk of impairment is carried by the Scheme.

Savings balances are refunded when a member leaves the Scheme or transfers to another benefit option within the Scheme which does not have a savings option. The money will be transferred to the member after five months of date of the resignation/change.

Unexpended savings amounts are accumulated for the long-term benefit of the member. Savings funds are invested in a separate call and current account with ABSA bank. Interest generated on the funds in the call and current accounts is allocated net of investment costs, to positive savings balances. Interest is calculated monthly on the respective member's positive balances, and is reflected on the monthly statements.

Risk transfer arrangements

	2016 R'000	2015 R'000
Premiums/fee paid	74,390	73,808
Denis	61,454	62,283
Netcare 911	8,099	7,340
Primecure	4,837	4,185
Claims recovered in respect of risk transfer arrangements	(69,876)	(66,649)
Denis	(55,174)	(55,415)
Netcare 911	(11,147)	(8,183)
Primecure	(3,555)	(3,051)
Loss/(Profit) share on risk transfer arrangements	25	617
Denis	92	5
Netcare 911	334	1,100
Primecure	(401)	(488)
	4,539	7,776

In addition to the dental (Denis) and emergency transport services (Netcare 911); capitation agreements that provide benefits to members on benefit options other than Origin. The Scheme has a third capitation agreement with Primecure providing a full capitation service which includes doctors, hospitals, specialists and medicines on the Origin benefit option. The capitation agreements are in substance, the same as non-proportional commercial reinsurance contracts.

MANAGEMENT

Board of Trustees in office during the year under review and to the date of this report

JH Greyling (Chairperson)
 PJS Gouws (Vice Chairperson from 19 August 2016)
 DPJ Kruger
 Adv. EW Vermaak
 AD Young
 P Bennett
 JP Deetlefs
 OJH Mulder
 JH Grobbelaar
 EP Sharman (Vice Chairperson till 18 August 2016)
 Prof. SG Bouillon

All of the above Trustees were elected on 29 August 2014 for a four year period in terms of the Rules of the Scheme.

The Board convened eleven times, inclusive of strategic sessions, during 2016 (2015 : nine times).

Principal Officer

BJ Kruger
 KeyHealth Building
 86 Koranna Avenue
 Doringkloof
 Centurion
 0157

PO Box 14145
 Lyttelton
 0140

Tel: (012) 667 2250
 Fax: (012) 667 2301

Registered office address and postal address

KeyHealth Building
 86 Koranna Avenue
 Doringkloof
 Centurion
 0157

PO Box 14145
 Lyttelton
 0140

Medical Scheme Administrator

PPS Healthcare Administrators (Pty) Ltd

PPS Centurion Square
 1262 Heuwel Avenue
 c/o Heuwel and Gordon Hood Roads
 Centurion
 0157

Private Bag X1031
 Lyttelton
 0140

Accreditation number: Admin 37

The Scheme applies a model whereby certain primary management functions are incorporated within the Scheme under the direct control of the Board of Trustees.

The functions include:

- Financial accounting and reporting;
- Independent internal audit department within the Scheme;
- New business;
- Broker commission administration and calculation;
- Marketing;
- Underwriting; and
- Distribution.

The core administration functions are outsourced to a third party administrator.

MANAGEMENT (continued)

Scheme Investment Consultant

IFG Africa Public Sector (Pty) Ltd
47 Dely Road
Hazelwood
0081

Registration no: 2000/025174/07
FSB No. 10899

Scheme Actuary

NMG Consultants and Actuaries
Belvedere Office Park
Block 13
Pasita Street
Bellville

External auditor

Deloitte & Touche
Deloitte Place, The Woodlands,
Building 8,
20 Woodlands Drive
Woodmead
2052

Audit Committee Members

BG Fourie (Chairperson)
A van den Berg (Deputy Chairperson)
JH Wagener
JH Grobbelaar
P Bennet

Independent member
Independent member
Independent member
Trustee
Trustee

INVESTMENT STRATEGY OF THE SCHEME

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

The mandate of the Board is to ensure that:

- The Scheme remains liquid;
- Investments are placed at minimum risk and the best possible rate of return;
- Investments made are in compliance with the Regulations of the Act supported by a declaration by the investment consultant; and
- A risk assessment is performed with feedback to the Board of Trustees with recommendations on the risks identified.

The Scheme invested in cash instruments, an equity-linked note, an inward listed warrant, shares, insurance policies and collective investment schemes during 2016. This investment policy is reviewed annually, taking into consideration compliance with the Act, the risk and returns of the various investment instruments and the surplus of funds available. The Scheme's activities expose it to a variety of financial risks, including the effects of changes in the equity market prices and interest rates. 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 obligation to its members.

The Scheme makes use of an investment consultant. The advisor's primary mandate is to comply with prevailing legislative constraints and to ensure value retention while still ensuring growth.

The Board's investment strategy with regards to savings funds is to invest such funds in a cash instrument to limit the risks to interest rate risk and to ensure that the Member's funds are readily available.

OPERATIONAL STATISTICS PER BENEFIT OPTION

2016	Platinum	Gold	Silver	Equilibrium	Essence	Origin	Scheme
a. Number of members at the end of the accounting period	3,616	16,679	4,606	7,967	2,472	418	35,758
b. Average number of members for the accounting period	3,696	16,978	4,677	7,699	2,493	378	35,921
c. Number of beneficiaries at the end of the accounting period	5,445	34,049	11,163	17,989	5,649	743	75,038
d. Average number of beneficiaries for the accounting period	5,596	34,851	11,322	17,342	5,718	677	75,506
e. Dependant ratio at year end	0.51	1.04	1.42	1.26	1.29	0.78	1.10
f. Average net contribution per member per month	7,875	4,926	4,123	2,304	1,983	1,330	4,321
g. Average net contribution per beneficiary per month	5,201	2,400	1,703	1,023	864	743	2,055
h. Relevant healthcare expenditure as a percentage of gross contribution	91%	83%	89%	84%	92%	73%	86%
i. Relevant non-healthcare expenditure as a percentage of gross contribution	7%	8%	9%	12%	13%	11%	8%
j. Return on investments as a percentage of investments	7%	7%	7%	7%	7%	7%	7%
k. Relevant healthcare expenditure per average beneficiary per month	4,739	2,214	1,520	929	794	546	1,880
l. Non-healthcare expenditure per average beneficiary per month	360	208	155	134	114	84	186
m. Average age per beneficiary	63	49	39	30	34	30	43
n. Pensioners ratio	56%	30%	17%	6%	10%	1%	22%
o. Chronic profile	70%	49%	32%	13%	16%	0%	37%

SOLVENCY

	2016 R'000	2015 R'000
Total Members' Funds and reserves per the statement of financial position	647,810	613,307
Less:		
Cumulative net gains on re-measurement to fair value of financial instruments and investment properties included in the accumulated funds and revaluation reserve	(31,102)	(2,852)
Accumulated funds per Regulation 29 of the Medical Schemes Act, 131 of 1998 as amended	<u>616,708</u>	<u>610,455</u>
Gross contributions	1,990,271	1,854,341
Accumulated funds ratio	31.0%	32.9%

KEYHEALTH MEDICAL SCHEME
STATEMENT OF FINANCIAL POSITION
at 31 December 2016

	2016 R'000	2015 R'000
ASSETS		
Non-current assets	641,575	603,253
Property, plant and equipment	19,486	18,580
Available-for-sale financial assets	548,745	511,825
Financial assets at fair value through profit or loss	73,344	72,848
Current assets	290,225	240,850
Held-to-maturity investments	-	-
Trade and other receivables	117,899	88,531
Cash and cash equivalents	172,326	152,319
Scheme	111,750	93,468
Personal medical savings account trust monies invested	60,576	58,851
Total assets	<u>931,800</u>	<u>844,103</u>
FUNDS, RESERVES AND LIABILITIES		
Accumulated funds	620,055	615,731
Revaluation reserve	27,755	(2,424)
Non-current liabilities	3,204	2,993
Post employment medical benefits	3,204	2,993
Current liabilities	280,786	227,803
Savings plan liability	66,801	63,593
Trade and other payables	151,805	94,060
Outstanding claims provision	62,180	70,150
Total funds and liabilities	<u>931,800</u>	<u>844,103</u>

KEYHEALTH MEDICAL SCHEME
STATEMENT OF COMPREHENSIVE INCOME
for year ended 31 December 2016

	2016 R'000	2015 R'000
Risk contribution income	1,862,392	1,736,617
Relevant healthcare expenditure	(1,703,105)	(1,630,110)
Net claims incurred	(1,675,260)	(1,600,304)
Claims incurred	(1,680,360)	(1,605,138)
Third party recovery	5,100	4,834
Accredited managed healthcare services (no transfer risk)	(23,306)	(22,030)
Net expense on risk transfer arrangements	(4,539)	(7,776)
Risk transfer arrangement fees	(74,390)	(73,808)
Recoveries from risk transfer arrangements	69,876	66,649
Profit/(deficit) sharing arising from risk transfer arrangements	(25)	(617)
Gross healthcare result	159,287	106,507
Administration expenditure: Benefit management services (not accredited managed care)	(10,968)	(10,237)
Broker service fees	(20,083)	(20,806)
Administration expenditure	(135,072)	(127,353)
Net impairment loss on healthcare receivables	(2,320)	(1,549)
Net healthcare results	(9,156)	(53,438)
Investment income	18,301	19,057
Scheme	14,377	15,857
Return on personal medical savings account trust monies invested	3,924	3,200
Other income	24	152
Asset management fees	(2,856)	(3,293)
Net fair value gains on financial assets	1,935	75,156
Interest paid on savings account balances	(3,924)	(3,200)
Net profit for the year	4,324	34,434
Other comprehensive income/(loss)	30,179	(60,725)
Land and buildings revaluation	835	(297)
Fair value adjustment on available-for-sale investments	29,344	(60,428)
Total comprehensive income/(loss) for the year	<u>34,503</u>	<u>(26,291)</u>

KEYHEALTH MEDICAL SCHEME STATEMENT OF CHANGES IN FUNDS AND RESERVES

for the year ended 31 December 2016

	Accumulated Funds	Market to Market Reserve	Revaluation reserve: Buildings	Total funds and reserves
	R'000	R'000	R'000	R'000
Balance as at 31 December 2014	581,297	53,992	4,309	639,598
Fair value movement on available-for-sale	-	(60,428)	-	(60,428)
Revaluation on land and building	-	-	(297)	(297)
Net profit for the year	34,434	-	-	34,434
Balance as at 31 December 2015	615,731	(6,436)	4,012	613,307
Fair value movement on available-for-sale	-	29,344	-	29,344
Revaluation on land and building	-	-	835	835
Net profit for the year	4,324	-	-	4,324
Balance as at 31 December 2016	620,055	22,908	4,847	647,810

KEYHEALTH MEDICAL SCHEME SUMMARY OF INVESTMENTS HELD

at 31 December 2016

To understand the risks associated with these investments better, the following disclosure is presented under each category.

Financial assets held at fair value through profit or loss

Financial assets held at fair value through profit or loss

are made up of the following:

	2016 R'000	2015 R'000
Investec Swix - Equity linked note	37,892	37,848
BNP Paribas - inward listed warrant	35,452	35,000
Total	73,344	72,848

Available for sale financial assets

Available for sale financial assets are made up of the following:

Prudential - Insurance contract	141,672	130,498
Coronation - Insurance contract	125,015	115,765
Cadiz - Share portfolio	-	45,544
PSG Wealth - Share portfolio	48,076	-
Investec High Income Fund - Collective investment scheme	6,902	6,352
Stanlib - Property collective investment scheme	3,576	3,209
Stanlib - Medical collective investment scheme	120,964	116,454
Sanlam - Money market collective investment scheme	-	1,410
Sanlam - Absolute return insurance contract	102,540	92,592
	548,745	511,824

KEYHEALTH MEDICAL SCHEME

SURPLUS/(DEFICIT) FROM OPERATIONS PER BENEFIT OPTION

for year ended 31 December 2016

	PLATINUM	GOLD	SILVER	EQUILIBRIUM	ESSENCE	ORIGIN	TOTAL SCHEME
2016	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Risk contributions	349,237	1,114,834	231,392	229,463	59,310	6,035	1,990,271
Less: Savings	-	(111,266)	-	(16,613)	-	-	(127,879)
Risk contribution income	349,237	1,003,568	231,392	212,850	59,310	6,035	1,862,392
Net claims incurred	(314,331)	(910,795)	(203,590)	(189,640)	(53,349)	(3,555)	(1,675,260)
Gross claims paid and reported	(303,129)	(993,718)	(197,289)	(198,544)	(51,942)	(3,168)	(1,747,790)
Less: Savings plan claims paid	-	112,960	-	17,291	-	-	130,251
Less: Discounts received on claims	493	2,233	349	669	112	-	3,856
Increase in outstanding claims provision	(11,695)	(32,270)	(6,650)	(9,056)	(1,519)	(387)	(61,577)
Accredited managed healthcare services (no transfer of risk)	(3,659)	(12,790)	(2,850)	(3,142)	(865)	-	(23,306)
Risk transfer arrangements	(205)	(2,470)	(130)	(593)	(260)	(881)	(4,539)
Risk Transfer fees paid	(8,950)	(41,038)	(8,369)	(10,628)	(568)	(4,837)	(74,390)
Recoveries from Risk Transfer Arrangements	8,886	38,766	8,285	10,077	307	3,555	69,876
(Loss)/Profit Sharing	(141)	(198)	(46)	(42)	1	401	(25)
Relevant healthcare result	31,042	77,513	24,822	19,475	4,836	1,599	159,287
Less: Administration expenditure	(20,127)	(71,917)	(16,193)	(20,216)	(6,108)	(512)	(135,073)
Less: Benefit management services (not accredited managed care)*	(1,150)	(5,282)	(1,455)	(2,396)	(685)	-	(10,968)
Less: Broker service fee	(2,863)	(8,584)	(3,149)	(4,243)	(1,066)	(178)	(20,083)
Less: Impairment loss on healthcare receivables	(57)	(1,122)	(222)	(994)	64	11	(2,320)
Net Healthcare results	6,845	(9,392)	3,803	(8,374)	(2,959)	920	(9,157)
Investment income	1,476	10,539	1,870	3,267	997	153	18,302
Savings interest paid	-	(3,752)	-	(173)	-	-	(3,925)
Other Income	-	23	1	-	-	-	24
Asset management fees	(293)	(1,350)	(372)	(613)	(198)	(30)	(2,856)
Net realised and unrealised gains on financial assets	201	928	255	396	138	17	1,935
Net surplus/(deficit)	8,229	(3,004)	5,557	(5,497)	(2,022)	1,060	4,323
Number of members at end of period	3,616	16,679	4,606	7,967	2,472	418	35,758

Basis of allocation:

- All relevant healthcare income and expenses, including Administration expenses, Broker commission and Managed care services, are directly allocated to benefit options based on actual amounts as well as impairment on receivables and other income.
- All remaining items are apportioned based on the number of members in each option



NON-COMPLIANCE WITH MEDICAL SCHEMES ACT

Sustainability of benefit options

In terms of Section 33(2) of the Medical Schemes Act 131 of 1998, as amended, each option shall be self-supporting in terms of membership and financial performance. The Gold, Equilibrium and Essence benefit options were not self-sustaining during 2016 based on net results.

The Scheme appointed actuaries are actively involved in the annual design and continued monitoring of the Scheme's benefit options. The benefit design changes were derived with the following in mind:

- Continuing to allow for reasonable increases of the right profile members;
- Redesigning benefits options in order to influence claims patterns and subsequently increase the solvency levels and competitiveness of the Scheme;
- Improving the overall membership profile of the Scheme;
- Reducing claims expenses of the Scheme through effective case managements; and
- Implementation of an investment policy to improve the return on investments.

Contributions received three days after payment becomes due

Section 26(7), of the Medical Schemes Act, stipulates the following:

"All subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due."

Contributions of members belonging to certain employer groups will only be suspended once the contributions received are allocated to the specific member records. It is also the policy of some of these groups to only pay their contributions on the 7th of the month, following the month that payment is due. Provision 13.2.1 of the Scheme Rules requires that these members should only be suspended after 30 days of the contributions becoming due.

The majority of the Scheme's employer group business is with Local Authorities. The SALGBC (South African Local Government Bargaining Council) resolved that contributions for employees in Local Government be paid in arrears and confirmed this by including it as part of the accreditation requirement for participating Medical Schemes. This decision and the tendency to pay contributions only by the 7th of a month resulted in a major portion of the Scheme's monthly contributions, from the various Local Authorities, being received outside the time limit as set out in the Act.

Processes are in place to ensure that these groups are monitored closely, so as to minimise any potential financial losses to the Scheme.

PMB paid out of savings

In terms of Regulation 10(6) of the Medical Schemes Act 131 of 1998, as amended requires that monies in medical savings accounts should not be used to fund PMBs.

During testing it was identified that R 23 250 worth of PMB claims were paid from savings. These instances will be investigated and corrected accordingly.

GOVERNANCE

1. REMUNERATION POLICY OF THE BOARD OF TRUSTEES OF KEYHEALTH

The Board would like to recommend as follows to the annual general meeting-

RECOMMENDATION:

1. That an annual inflationary increase of 8% on the Trustee Remuneration structure be implemented.
2. That the Trustee Remuneration Policy be amended to provide for a maximum meeting allowance of R 3 000.00 per day to stay abreast of industry norms.

2. APPOINTMENT OF AUDITORS

The Board would like to recommend as follows to the annual general meeting-

RECOMMENDATION:

That Deloitte & Touche be re-appointed as the external auditors for the 2017 financial year, in accordance with legislation.

ACKNOWLEDGEMENTS

CLOSURE



PROXY FORM

For the KeyHealth 10th Annual General Meeting

I, _____, KeyHealth membership no. _____, being a current and fully-paid principal member of KeyHealth hereby appoints _____, KeyHealth membership no. _____ or failing whom the Chairperson of the Board, as my proxy to attend, and speak, and vote on my behalf only in accordance with the directions indicated below at the 10th Annual General Meeting of KeyHealth to be held at the Riverside Hotel, 10 Kenneth Kaunda Road, Durban on 18 August 2017 at 11:00.

Please insert an X to indicate direction to proxy -

		In favour of	Against	Abstain
1.	Adoption of the minutes of the 9 th Annual General Meeting of members held on 19 August 2016			
2.	Extracts from the Annual Financial statements for the year ended 31 December 2016			
3.	Remuneration Policy of the Board of Trustees of KeyHealth			
4.	Re-appointment of Auditors for the 2017 financial year			

Signed at _____ on this _____ day of _____ 2017.

SIGNATURE OF MEMBER _____

SIGNATURE OF PROXY HOLDER _____

Important notes:

- i) A Member is entitled to submit one proxy form only.
- ii) Only one "X" for each of the above resolutions will be acceptable.
- iii) If any of the above is not marked with an "X" it will be deemed as no vote having been cast for that resolution.
- iv) By giving a proxy a member assigns his /her rights to attend, speak and vote as indicated, to the Member appointed as the proxy holder.
- v) The Member giving proxy may, in writing revoke it at any time before the commencement of the AGM.
- vi) Proxy holders must attend the AGM in person (refer to Rule 28.1)
- vii) No proxy forms will be accepted at the Annual General Meeting on 18 August 2017.
- viii) All proxies will be declared at the commencement of the meeting.
- ix) This proxy form must either be delivered by hand at the offices situated at 86 Koranna Avenue, Doringkloof, Centurion or e-mailed to proxies@keymed.co.za to **reach the Scheme before 12:00 on 14 August 2017**. Kindly note that incomplete forms will be deemed spoilt and disregarded as invalid.



KeyHealth
MEDICAL SCHEME