

NOTICE IS HEREBY GIVEN THAT THE 24TH ANNUAL GENERAL MEETING OF



Medical scheme

WILL BE HELD ON THURSDAY, 9 JULY 2020, AT 13:00 VIA ZOOM VIDEO CONFERENCING

The details of the meeting are:

- **Meeting URL:** <https://picknpay.zoom.us/j/99573439625?pwd=djBia0orREdNQ0lZenBreU5jeFIOZz09>
 - **Meeting ID:** 995 7343 9625
 - **Password:** 831500
-

AGENDA

1. Notice convening the Annual General Meeting
2. Minutes of the Annual General Meeting held on Thursday, 11 July 2019
3. Annual Report of the Chairperson of the Board of Trustees for the year ended 31 December 2019
4. Adoption of the annual financial statements for the year ended 31 December 2019
5. Confirmation of the Disputes Committee

The current Disputes Committee comprises:

- Mr C Vlok
 - Ms M Magnussen
 - Ms M Mannion
 - Mr M Marsden
6. To note the appointment of the External Auditor for the ensuing year: Ernst & Young
 7. Any other business of which due notice has been given on or before Thursday, 9 July 2020

By order of the Board of Trustees

A handwritten signature in black ink, appearing to read "Amile Visser".

AMILE VISSER
PRINCIPAL OFFICER

**PICK N PAY MEDICAL SCHEME
MINUTES OF THE TWENTY-THIRD ANNUAL GENERAL MEETING
HELD ON THURSDAY, 11 JULY 2019 AT 13:00 IN THE EXECUTIVE BOARDROOM, 2ND FLOOR
CONFERENCE CENTRE, PICK N PAY OFFICE PARK, 101 ROSMEAD AVENUE, KENILWORTH**

MEMBERS IN ATTENDANCE: 35 (including at video conferencing venues in Johannesburg [21] and Durban [5]); two proxies were received

PRESENT

Helen de Light	Member-elected Trustee (Chairperson)
Vaughan Pierce	Employer-appointed Trustee (Vice-Chairperson)
Gary Lea	Employer-appointed Trustee
Vusani Ramakuela	Employer-appointed Trustee
Jeff Dube	Employer-appointed Trustee
Ryan Johnson	Member-elected Trustee
Mpoleleng Mahlaba	Member-elected Trustee
Radhia Sattar	Alternate Member-elected Trustee
Amile Visser	Principal Officer
Pam Botha	Deputy Principal Officer

BY INVITATION

Badrodin Hamdulay	MMI Health
Munaaf Roshan	MMI Health
Dawn Theron	MMI Health
Zaida Mohidin	MMI Health
Frances Herbst	MMI Health

APOLOGIES

David Liebrecht	Member
Michael Marsden	Member

1. OPENING AND WELCOME

The Chairperson opened the meeting, welcomed all present in person and those joining by way of video conference.

The Chairperson confirmed that a quorum was present.

The Chairperson confirmed that there were no further additions to the meeting agenda.

2. MINUTES OF THE ANNUAL GENERAL MEETING (AGM) HELD ON 21 JUNE 2018

Mr Johnson proposed that the minutes of the 2018 AGM, as distributed to members prior to the AGM, be approved and adopted. This proposal was seconded by Ms Rolstone. The minutes were subsequently adopted and signed by the Chairperson.

3. ANNUAL REPORT OF THE CHAIRPERSON OF THE BOARD OF TRUSTEES

The Chairperson presented the Annual Report, which had been circulated to members prior to the AGM as part of the meeting pack, drawing specific attention to various items, which included:

- the Trustees' ongoing commitment to ensuring the financial viability of the Scheme, while members continued to receive appropriate healthcare funding;
- membership had increased by 417 principal members from January to December 2018;
- the Scheme's reserve ratio of 114.4% as at 31 December 2018 was much higher than the required statutory 25% and served as a safeguard to guarantee the financial viability of the Scheme for many years to come;
- due to lower investment returns during the 2018 year, as well as higher-than-expected claims expenditure, the Scheme experienced a net deficit of R15.9 million for the year ended 31 December 2018; however, the Scheme remained financially sound and was able to meet its commitments in terms of the payment of claims and in implementing contribution increases well below those implemented by other medical schemes for 2019;
- the Primary Option continued to grow during 2018; with pending regulation changes, the Board may need to make a decision with regard to the sustainability of this option within the next year or two.

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(CONTINUED)**

3. ANNUAL REPORT OF THE CHAIRPERSON OF THE BOARD OF TRUSTEES (CONTINUED)

The Chairperson expressed appreciation to the people and organisations who continued to support, manage and administer the Scheme. A particular word of thanks was expressed to the Deputy Principal Officer for her efforts and support to the members throughout the year.

4. ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Following a request by the Chairperson, the Principal Officer presented an overview of the Annual Financial Statements for the year ended 31 December 2018.

With reference to page nine of the AGM document, namely the annual summary of results for the year ended 31 December 2018, the Principal Officer highlighted the following salient points:

- Whilst the Investment Committee's philosophy had not changed, the investment strategy had changed due to legislative requirements, particularly regarding the Scheme's investment in SA equities.
- Following the investment strategy review in 2018, the Trustees had decreased the strategic asset allocation for SA equities from 48% to 42% and had increased SA bonds from 10% to 16% in October 2018.
- The investment analysis on page 10 of the AGM document reflected the cash flow of the Scheme during 2018. This was the funds that were disinvested to pay benefits.
- The investment returns, excluding Personal Medical Savings, had been zero as at 31 December 2018. This was attributed to the poor market performance during 2018 in both SA equities and SA listed property. Investment returns had been positive on SA cash investment and global bonds.
- Markets had performed poorly during the last quarter of 2018; however, quarter one of 2018 was noted to be a very good period.
- The long-term assets were invested in a mixture of SA equities, SA listed property, SA bonds and cash, as well as international bonds and cash. Taking market volatility into consideration, the aim was to grow these investments by 4% per annum above inflation over the long term.

The Chairperson extended an invitation to members to pose any questions regarding the Annual Financial Statements and/or the investment report. Mr Mike Twala drew a comparison of the Scheme's investment to that of the employer's provident fund and enquired why the Scheme had not increased its investment exposure in SA equities, as the employer's provident fund had invested up to 75% of its assets. In response, the Principal Officer stated that medical schemes are restricted to invest no more than 40% of the assets in SA equities, whereas pension and provident funds are allowed to invest more liberally. Medical schemes are also not permitted to invest in global equities, with the only possible global investment being in global bonds.

Having confirmed that the Annual Financial Statements had been accepted by the Board of Trustees, as per the recommendation from the Audit Committee and External Auditors, the Chairperson invited members to pose questions regarding the financial statements for consideration and discussion.

No further questions were posed or any concerns raised by members regarding the Annual Financial Statements for the year ended 31 December 2018.

Mr Pierce proposed that the Annual Financial Statements be accepted. The proposal was seconded by Ms Sattar.

5. CONFIRMATION OF THE DISPUTES COMMITTEE

The Chairperson explained the responsibilities of Disputes Committee members. The Disputes Committee members were re-appointed without change, as follows:

- Ms M Mannion;
- Mr M Marsden;
- Mr C Vlok; and
- Ms M Magnussen.

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MINUTES OF THE TWENTY-THIRD ANNUAL GENERAL MEETING
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(CONTINUED)**

6. APPOINTMENT OF THE EXTERNAL AUDITORS

Following a recommendation by the Audit Committee, the Chairperson confirmed that the Board of Trustees would like to renew the appointment of Ernst & Young Inc as the External Auditors to the Scheme for the financial year ending 31 December 2019.

Ms Gerber proposed that the appointment of Ernst & Young Inc as the External Auditors to the Scheme for the financial year ending 31 December 2019 be approved and adopted. The proposal was seconded by Ms Ameerodien.

7. CLOSURE

There being no further questions from members and no further business for discussion, the Chairperson thanked all present for their attendance and participation and declared the meeting closed at 14:03.

HELEN DE LIGHT
CHAIRPERSON

DATE

PICK N PAY MEDICAL SCHEME CHAIRPERSON'S REPORT

As Chairperson of the Board of Trustees, I have pleasure in presenting my report for the year ended 31 December 2019.

It remains the Board of Trustees' priority to ensure that, whilst continuing to provide our members with a comprehensive and competitive benefit offering, the Scheme remains financially viable, thereby ensuring its long-term sustainability. Pick n Pay Medical Scheme remains committed to ensuring that its contributions are competitive, without compromising on the quality of care that you and your families receive.

The outbreak of the coronavirus in the last quarter of 2019 has disrupted the global economic markets and we remain uncertain of the impact it will have on us all going forward. The Board of Trustees will continue to monitor and mitigate the impact of the outbreak on the Scheme and its members in the best possible way.

The various Sub-Committees, which include Risk and Audit, Investment, Clinical and Ex Gratia, have continued to provide expert insight and guidance on the issues relating to the running of the Scheme, whilst holding the best interests of the members at heart.

The Scheme remains financially sound with a solvency ratio of 109.4% as at 31 December 2019. These reserves are well in excess of the legislated targets, but appropriate for the long-term sustainability of our Scheme.

Legislative developments will be monitored closely on an ongoing basis to pre-empt and minimise the impact on the Scheme and its members.

Financial performance

During 2019, the Scheme paid out R263 928 974 in claims and claims-related expenses. This was R13,1 million more than in 2018. This can be attributed in part to the restructuring of some of the Scheme's benefits and also in part to a number of high-cost cases during the course of the year. The Trustees, as well as the managed care providers and actuaries, continue to keep a close eye on claims expenditure.

The reserve ratio of 109.4% is still much higher than the required statutory 25%. This is a further safeguard that will guarantee the financial viability of the Scheme for many years to come.

Despite lower investment returns during the year, together with higher-than-expected claims expenditure, the Scheme made a net surplus of R25,033,187 for the year ended 31 December 2019. The Scheme remains financially sound and is able to meet its commitments in terms of the payment of claims.

Investments

The outbreak of the coronavirus in the last quarter of 2019 has disrupted the global economic markets. In making their estimates and judgements as at 31 December 2019, the Trustees took into consideration the global economic conditions and forecasts as at that date. The Trustees will continue to consider the potential impact of the outbreak on significant estimates and judgements going forward.

At year-end, 51% of the Scheme's total assets were invested in cash, with 38% exposed to local equity markets. While the cash investments will be largely unaffected, the equity and bonds portion of the investments will fluctuate. The long-term investments of the Scheme are in equity and bonds. The market value of the long-term investments of the Scheme as at the end of April 2020 has decreased by 12.25% since December 2019. This will not significantly impact the solvency of the Scheme and, while it is expected that healthcare costs for the pandemic will be incurred, the Trustees are of the view that the Scheme is able to withstand the impact of the COVID-19 outbreak.

More detailed information regarding the Scheme's investment performance for 2019 is provided after this report. We would, however, like to remind you of the following at this point:

In managing the Scheme's investments, the Board of Trustees has an Investment Committee, constituted of five suitably qualified individuals. The Committee is assisted by representatives from the Scheme's Administrator, our Actuarial Consultants and Willis Towers Watson, the Scheme's Investment Consultants. The actions of the Committee are governed by the Investment Committee Charter and the Statement of Investment Principles (SIP) and any changes to these two documents require approval from the Board of Trustees.

The SIP outlines rules regarding what the Scheme can and cannot invest in, including asset classes, amongst others. In addition to the SIP, the Scheme's investments are governed by Regulation B of the Medical Schemes Act of 1998 that details specific limitations on certain asset classes.

PICK N PAY MEDICAL SCHEME CHAIRPERSON'S REPORT (CONTINUED)

Investments (continued)

The Scheme's investment strategy is to maximise the return on its investments on a long-term basis at an appropriate level of risk. The investment strategy takes into consideration constraints imposed both by legislation and by the Board of Trustees. This policy is reviewed annually, taking cognisance of compliance with the Act, the risk returns of the various investment instruments and surplus available funds that ideally should be invested elsewhere so as to maximise the investment return.

Membership

Membership of the Scheme has increased by 201 principal members from January to December 2019. The average age of beneficiaries was 30.8 and the pensioner ratio was 4.1%.

Benefit changes

Benefit changes for 2019 included:

- Emergency treatment in a trauma or casualty facility of a hospital and all associated costs where treatment resulted in a hospital admission or prevented a hospital admission and where treatment could not be rendered in a general practitioner (GP)'s rooms, to be paid from the in-hospital benefit at 100% of the agreed rate and/or 150% of the Scheme rate, whichever is applicable.
- The maternity programme was enhanced to allow for two additional GP or specialist visits for children under one year of age and one additional specialist visit for a mother within 12 months of giving birth to be paid from the maternity benefit and not from the Medical Savings Account.

The emergency treatment benefit was extended to the Primary Option for 2019 as well, and members on the Primary Option are entitled to emergency room treatment in emergencies.

Contribution increases

The Trustees have tried very hard to keep contribution increases as low as possible; however, given the Scheme's unfavourable financial performance, as well as increased medical inflation, the Trustees need to ensure that the Scheme remains financially viable for years to come. Contributions were increased by 6.5% on the Plus Option and 5% on the Primary Option for 2019. These increases were well below the average increases announced by other medical schemes.

To further ease the burden on household budgets, each year we increase the income bands to prevent those members who are currently at the top of their income bands from being pushed into a higher bracket, where they will have to pay higher contributions when the contribution increases come into effect. The income bands were increased by 6.5% on both options.

While the reserve ratio may appear to be more than adequate to keep contribution increases low, we need to factor in the unpredictability of the ever-changing healthcare market and the volatility of year-on-year claims experience.

Despite the unfavourable financial results in 2019, the Board was still able to enhance a few of the benefits for 2020, which we hope will benefit the majority of the members of the Scheme. These enhancements were:

- The overall limit on specified prostheses was removed. This means that more than one type of prosthesis is available to those members who may need more than one in a benefit year.
- The limit for medication for depression, which is claimed from the chronic medication benefit, has been increased to R325 per beneficiary per month.
- A Plus-70s Programme was introduced for members over the age of 70 who may be at high risk of falling and injuring themselves.
- Other benefit limits were increased in line with inflation.

A moment of appreciation

On behalf of the Pick n Pay Medical Scheme, we would like to express our thanks to the following people/organisations:

- the Company for its continued support
- our colleagues on the Board of Trustees and the various sub-committees for their commitment to leadership

**PICK N PAY MEDICAL SCHEME
CHAIRPERSON'S REPORT (CONTINUED)**

A moment of appreciation (continued)

- the management and staff at Momentum Health Solutions for the efficient manner in which they have managed the day-to-day affairs of the Scheme
- the management and staff of our managed care providers – Private Health Administrators, MediKredit, ER24 Emergency Medical Services and the Centre for Diabetes and Endocrinology – for the efficient manner in which they have managed the various managed care programmes
- our Medical Advisor, Dr Martin Bailey, for his dedication and commitment to the Scheme
- our Principal Officer, Mr Amile Visser, and Deputy Principal Officer, Ms Pamela Botha, for the daily management of the Scheme and for the assistance and sound advice they provide to our members
- our Actuarial Consultants, NMG Consultants and Actuaries, for their invaluable contributions throughout the year
- Willis Towers Watson for their assistance and guidance in managing our investments
- The External Auditor, Ernst Young Inc for the manner in which they conducted their audit
- The Registrar for Medical Schemes and his staff for their assistance during the year
- All other service providers.

Most importantly, we would like to thank our members for their continued efforts in proactively managing their health and wellness, thereby ensuring the wellbeing of the Pick n Pay Medical Scheme.



HELEN DE LIGHT
CHAIRPERSON

Pick n Pay Medical Scheme

Annual Summary of Results for year ended 31 December 2019

Mandate of the Investment Committee

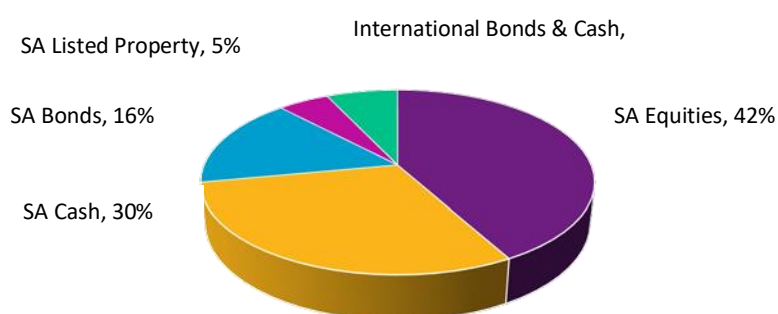
- The Board of Trustees has mandated the Investment Committee to monitor the investment performance and risk management of the Scheme's investments.
- The Board of Trustees has appointed Willis Towers Watson as their investment consultants to advise the Investment Committee and Board of Trustees on matters related to the Scheme's investments, including investment performance monitoring, asset allocation decisions and investment manager selection.
- The Investment Committee is chaired by Gary Lea and the Investment Committee meets on a quarterly basis.
- The Investment Committee receives a feedback presentation from the appointed investment management firms at each quarterly meeting.

Investment philosophy and investment strategy

- The Scheme's investments consists of two broad categories:
 1. Liquidity assets – these assets are invested in cash or money-market instruments and are used to meet the short-term cash flow needs of the Scheme
 2. Long-term assets – these assets are invested in a mixture of SA Equities, SA Listed Property, SA Bonds & Cash and International Bonds & Cash where the aim is to grow the investments of the Scheme by 4% per annum above inflation over the long term.
- With respect to the long-term assets, the Trustees believe that over long measurement periods (typically five years and longer) investment markets are efficient and so the price of a traded asset is the most accurate indication of its underlying value. However, over shorter time frames investment markets may be materially inefficient resulting in big and non-random disparities which cause the price of an asset to deviate from its underlying value.
- If markets are indeed efficient over the long term, then it follows that a skilful and patient investor can earn superior returns over the long term by exploiting these short-term mispricings. Therefore the Trustees have appointed active investment managers who primarily follow a valuation investment approach i.e. on SA equities, the investment managers assess the intrinsic value of a company and invest in companies whose share price is well below the investment manager's assessed intrinsic value.
- The Trustees believe in the benefits of diversification and that the risk of poor investment outcomes can be mitigated by allocating the investments of the Scheme's long-term assets between different asset classes. Further diversification is also achieved within a more risky asset class by allocating the assets to more than one investment manager.
- The Personal Member Savings Accounts (PMSA) are invested mainly in cash and money-market investments, separately from the liquidity assets and long-term assets.

Strategic asset allocation (long-term assets)

The strategic asset allocation for the long-term assets is as follows:



Benchmarks

- SA Equities FTSE/JSE Capped All Share Index to 31 March 2018, and FTSE/JSE Capped Shareholder Weighted Index (Capped SWIX) from 1 April 2018
- SA Cash STEFI Composite Index
- SA Listed Property FTSE/JSE listed property index to 30 June 2018, and FTSE/JSE All Property Index form 1 July 2018.
- SA Bonds BEASSA All Bond Index
- International Bonds Bloomberg Barclays Global Aggregate Index

Investment analysis for the year ended 31 December 2019

Asset Class	Opening Market value (R'm)	Cashflow (R'm)	Investment (R'm)	Closing Market value (R'm)	Portfolio	Calculated 12 Month (net)	Index
	<u>01-Jan-19</u>	<u>Nett</u>	<u>Returns</u>	<u>31-Dec-19</u>	<u>%</u>	<u>Return</u>	<u>Return</u>
SA Equity	158.0	2.5	5.9	166.4	35.1%	3.8%	6.8%
Allan Gray	58.7	-	2.6	61.3	12.9%	3.8%	
Visio	37.8	1.1	0.4	39.3	8.3%	5.2%	6.8%
ABAX	61.5	1.4	2.9	65.8	13.9%	4.6%	
SACash	189.8	-7.2	14.3	196.9	41.5%	8.2%	7.3%
Investec Stable Money Fund	64.6	-3.2	5.2	66.6	14.0%	8.6%	
Coronation Medical Cash Fund	64.5	-3.2	5.1	66.4	14.0%	8.3%	7.3%
Investec Corporate Money Fund	26.0	7.5	2.6	36.1	7.6%	7.8%	
Standard Bank Current	34.7	-8.3	1.4	27.8	5.9%	4.1%	
SAListed Property	16.5	-	0.5	17.0	3.6%	2.9%	-0.4%
Sesfikile Property Fund	16.5	-	0.5	17.0	3.6%	2.9%	-0.4%
SABonds	55.0	3.8	5.1	63.9	13.4%	8.8%	10.3%
Coronation Strategic Bond Fund	55.0	3.8	5.1	63.9	13.4%	8.8%	10.3%
International Bonds¹	28.8	-	1.8	30.6	6.4%	6.2%	4.0%
Stanlib Global Bond Fund	28.8	-	1.8	30.6	6.4%	6.2%	4.0%
SUB-TOTAL (Excluding PMSA)	448.1	-0.9	27.6	474.8	100.0%	6.2%	
Investec PMSA Fund	84.4	0.4	7.3	92.1		8.6%	
TOTAL	532.5	-0.5	34.9	566.9		6.6%	

¹International Bonds returns in the table above are in Rand terms. The 12 Month net US Dollar return was 9.0% versus the Index return of 6.8%.

Disclaimer

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**PICK N PAY MEDICAL SCHEME
SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

CONTENTS	PAGE
BOARD OF TRUSTEES' RESPONSIBILITY STATEMENT	11
STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES	12
REPORT OF THE BOARD OF TRUSTEES	13 – 26
INDEPENDENT AUDITOR'S REPORT ON THE SUMMARISED FINANCIAL STATEMENTS	27 – 28
SUMMARISED STATEMENT OF FINANCIAL POSITION	29
SUMMARISED STATEMENT OF COMPREHENSIVE INCOME	30
SUMMARISED STATEMENT OF CHANGES IN FUNDS AND RESERVES	31
SUMMARISED STATEMENT OF CASH FLOWS	32
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS	33 – 47

**PICK N PAY MEDICAL SCHEME
BOARD OF TRUSTEES RESPONSIBILITY STATEMENT**

The Trustees are responsible for the preparation and fair presentation of the summarised financial statements of Pick n Pay Medical Scheme, comprising the summarised statement of financial position as at 31 December 2019, summarised statement of comprehensive income, summarised statement of changes in equity and summarised statement of cash flows for the year then ended and the notes to the summarised financial statements, which include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act of South Africa. In addition, the Trustees are responsible for preparing the report of the Board of Trustees.

The Trustees are also responsible for such internal control as the Trustees determine is necessary to enable the preparation of summarised financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Trustees have made an assessment of the ability of the Scheme to continue as a going concern and have no reason to believe the Scheme will not be a going concern in the year ahead.

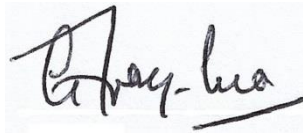
The auditor is responsible for reporting on whether the summarised financial statements are fairly presented in accordance with the applicable financial reporting framework.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of Pick n Pay Medical Scheme were approved by the Board of Trustees on 8 May 2020. The summarised financial statements have been derived from information contained in the financial statements.



VAUGHAN PIERCE
VICE-CHAIRPERSON



GARY LEA
TRUSTEE



AMILE VISSER
PRINCIPAL OFFICER

8 May 2020

**PICK N PAY MEDICAL SCHEME
STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES**

Pick n Pay Medical Scheme is committed to the principles and practices of fairness, openness, integrity and accountability in all dealings with its stakeholders. The Board of Trustees presently comprises eight Trustees of whom four are proposed and elected by the members of the Scheme and four are nominated by the employer, as well as two alternate Trustees proposed and elected by the members.

BOARD OF TRUSTEES

The Trustees meet regularly and monitor the performance of all service providers. They address a range of key issues and ensure that discussion on 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 Deputy Principal Officer and, where appropriate, may seek independent professional advice at the expense of the Scheme.

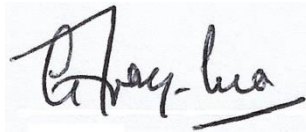
INTERNAL CONTROLS

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

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



VAUGHAN PIERCE
VICE-CHAIRPERSON



GARY LEA
TRUSTEE



AMILE VISSER
PRINCIPAL OFFICER

8 May 2020

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019**

The Board of Trustees hereby presents its report for the year ended 31 December 2019.

Registration number: 1563

1. MANAGEMENT

1.1 BOARD OF TRUSTEES

The names of the Trustees in office during the year under review and up to the date of signing this report are:

Employer appointed	Date of appointment	Date of resignation
G Lea	30 June 2018*	
V Pierce	3 August 2017	
V Ramakuela	30 June 2018*	
J Dube	1 November 2018	

* Re-appointed

Member elected	Date of appointment	Date of resignation
H de Light Chairperson	21 June 2018*	
R Johnson	21 June 2018*	
E Rakgogo	21 June 2018	31 January 2020
M Mahlaba	21 June 2018	
Z Ameeroedien	21 June 2018	
R Sattar Alternate member-elected	21 June 2018	
L Andrews Alternate member-elected	1 February 2020	

* Re-elected

1.2(a) PRINCIPAL OFFICER

A Visser

Pick n Pay Office Park
Corporate Building
101 Rosmead Avenue
Kenilworth
7700

PO Box 23087
Claremont
7735

1.2(b) DEPUTY PRINCIPAL OFFICER

P Botha (appointed 1 April 2017)

Pick n Pay Office Park
Corporate Building
101 Rosmead Avenue
Kenilworth
7700

PO Box 23087
Claremont
7735

1.3 REGISTERED OFFICE ADDRESS AND POSTAL ADDRESS

Pick n Pay Medical Scheme

Parc du Cap
Mispel Road
Bellville
7530

PO Box 4313
Cape Town
8000

1. MANAGEMENT (CONTINUED)

1.4 MEDICAL SCHEME ADMINISTRATOR

Momentum Health Solutions (Pty) Ltd (formerly known as MMI Health [Pty] Ltd)

268 West Avenue
Centurion
Gauteng
0157

PO Box 7400
Centurion
0046

Accreditation number: ADMIN 13

1.5 INVESTMENT MANAGERS

Allan Gray Life Ltd

Granger Bay Court
Beach Road
V&A Waterfront
Cape Town
8002

PO Box 51318
V&A Waterfront
8002

Ninety One Plc (formerly known as Investec Asset Management [Pty] Ltd)

100 Grayston Drive
Sandown
Sandton
2196

PO Box 785700
Sandton
2146

Coronation Fund Managers Ltd

7th Floor Montclare Place
C/o Campground and Main Roads
Claremont
7708

PO Box 44684
Claremont
7735

Abax Investments (Pty) Ltd

Ground Floor Coronation House
The Oval
1 Oakdale Road
Newlands
7700

PO Box 23851
Claremont
7735

Stanlib Asset Management Ltd

17 Melrose Boulevard
Sanlamhof
Johannesburg
2196

PO Box 202
Melrose Arch
2076

Sesfikile Capital (Pty) Ltd

1st Floor, 30 Melrose Boulevard
Melrose Arch
Johannesburg
2076

Private Bag X1
Johannesburg,
2076

Visio Capital Management (Pty) Ltd

The Place, Ground Floor, South Wing
1 Sandton Drive
Sandton
2146

PO Box 3625
Tygervalley
7536

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019 (continued)**

1. MANAGEMENT (CONTINUED)

1.6 AUDITOR

Ernst & Young Inc

3rd Floor, Waterway House
3 Dock Road
V&A Waterfront
Cape Town
8001

PO Box 656
Cape Town
8000

1.7 ACTUARIAL CONSULTANTS

NMG Consultants and Actuaries (Pty) Ltd

NMG House
411 Main Avenue
Randburg
2125

PO Box 3075
Randburg
2125

1.8 INVESTMENT CONSULTANTS

Willis Towers Watson Actuaries and Consultants (Pty) Ltd

Level 4, Montclare Place
23 Main Road
Claremont
7708

Private Bag X30
Rondebosch
7701

1.9 CAPITATION PROVIDERS

Centre for Diabetes & Endocrinology (Pty) Ltd

81 Central Street
Houghton
2198

PO Box 2900
Saxonwold
2132

ER24 EMS (Pty) Ltd

Manor 1, Cambridge Manor
C/o Witkoppen and Stonehaven Streets
Paulshof
2056

PO Box 242
Paulshof
2056

Momentum Health Solutions (Pty) Ltd (formerly known as MMI Health [Pty] Ltd)

268 West Avenue
Centurion
Gauteng
0157

PO Box 7400
Centurion
0046

1.10 MANAGED CARE SERVICE PROVIDERS

Momentum Health Solutions (Pty) Ltd (formerly known as MMI Health [Pty] Ltd)

268 West Avenue
Centurion
Gauteng
0157

PO Box 7400
Centurion
0046

1. MANAGEMENT (CONTINUED)

1.10 MANAGED CARE SERVICE PROVIDERS (CONTINUED)

**MediKredit Integrated Healthcare Solutions (Pty) Ltd
(A subsidiary of Performance Health [Pty] Ltd)**

10 Kikuyu Road
Sunninghill
Sandton
2157

PO Box 692
Johannesburg
2193

Private Health Administrators (Pty) Ltd

70 Buckingham Terrace
Pharos House Building
Westville
Durban
3630

PO Box 343
Westville
3630

2. DESCRIPTION OF THE MEDICAL SCHEME

The Scheme is a not-for-profit restricted membership medical scheme, registered in terms of the Medical Schemes Act, No 131 of 1998, as amended (the Act).

2.1 BENEFIT OPTIONS WITHIN THE SCHEME

The Scheme offers the following two options to its members:

- Plus Option (includes a personal medical savings account); and
- Primary Option (capitated low-cost benefit option as from 1 January 2017).

2.2 PERSONAL MEDICAL SAVINGS ACCOUNT

In order to provide a facility for members of the Scheme to set funds aside to meet future healthcare costs that are not covered by the benefit options, the Trustees have made a personal medical savings account available on the Plus Option.

On the Plus Option, 20% of the total contributions are allocated to a personal medical savings account to cover members' day-to-day medical expenses that are not paid from risk.

Unexpended savings amounts are accumulated for the long-term benefit of members and interest is paid on credit balances at an interest rate that is determined by the Board of Trustees annually.

The liability to the members in respect of the personal medical savings account is reflected as a current liability in the financial statements.

In terms of the rules of the Scheme, the savings account is underwritten by the Scheme. Members are allowed to use their savings balances at any time during the year, even though contributions are paid monthly. The Scheme carries the risk that contributions are not recovered, even though annual savings have been spent.

Unexpended savings balances are refundable when a member leaves the Scheme.

As from December 2012, the Scheme ring-fenced the investment of the personal medical savings account funds in a separate Ninety One Plc Stable Money Fund. As from 1 January 2013, actual interest earned on the investment has been allocated on a member level.

3. INVESTMENT STRATEGY OF THE MEDICAL SCHEME

The Scheme's investment strategy is to maximise the return on its investments on a long-term basis at an appropriate level of risk. The investment strategy takes into consideration constraints imposed both by legislation and by the Board of Trustees. This policy is reviewed annually, taking into consideration compliance with the Act, the risk returns of the various investment instruments and surplus available funds.

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019 (continued)**

3. INVESTMENT STRATEGY OF THE MEDICAL SCHEME (CONTINUED)

The Board of Trustees is responsible for all the investment decisions and part of its strategy is to ensure that:

- the Scheme remains liquid;
- investments are placed so as to be exposed to appropriate risk to earn the best possible rate of return;
- investments are in compliance with the regulations of the Act; and
- a risk assessment is performed with feedback to the Board of Trustees with recommendations on the risks identified.

The Scheme invested in market-linked policies, collective investment schemes and cash instruments during the year.

The Scheme's Investment Committee, which comprises Trustees, meets regularly to consider the Scheme's investment strategy and to monitor investment performance and compliance. The committee's decisions are considered and approved by the Board of Trustees. The committee receives guidance from external consultants (Willis Towers Watson Actuaries and Consultant [Pty] Ltd) to assist them with investment strategies.

4. MANAGEMENT OF INSURANCE RISK

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

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation, case management and service provider profiling. These methods for mitigating insurance risk are reviewed annually and amended for changes in the Act and/or changes in the Scheme's ability to accept insurance risk.

With the assistance of the Scheme's actuarial consultants, the Board of Trustees frequently assesses the necessity to enter into risk transfer arrangements.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. The principal risk is that the frequency and severity of claims are 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.

5. REVIEW OF OPERATIONS

5.1 OPERATIONAL STATISTICS

The results of the Scheme's operations for the year under review at 31 December 2019 are set out in the financial statements, and the Trustees believe that no further clarification is required.

2019	Plus	Primary	Total
Number of members at year end	6,872	744	7,616
Average number of members for the year	6,900	675	7,575
Number of beneficiaries at year-end	14,531	1,183	15,714
Average number of beneficiaries for the year	14,524	1,067	15,591
Proportion of dependants at year-end	1.1	0.6	1.1
Average age of beneficiaries	31.1	27.7	30.8
Pensioner ratio	4.4%	0.7%	4.1%
Average contributions net of savings per member per month	R3,247	R1,621	R3,102

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019 (continued)**

5. REVIEW OF OPERATIONS (CONTINUED)

5.1 OPERATIONAL STATISTICS (CONTINUED)

2019	Plus	Primary	Total
Average contributions net of savings per beneficiary per month	R1,543	R1,025	R1,507
Average claims net of savings incurred per member per month	R3,088	R1,019	R2,904
Average claims net of savings incurred per beneficiary per month	R1,467	R644	R1,411
Average administration costs per member per month	R270	R270	R270
Average managed care: Managed services per member per month	R94	R94	R94
Average members' funds per member at year-end	N/A	N/A	R60,261
Relevant healthcare expenditure as a percentage of net contributions	93.8%	52.5%	91.9%
Relevant healthcare expenditure per average beneficiary per month	R1,447	R538	R1,384
Managed care: Management services as a percentage of net contributions	2.9%	5.8%	3.0%
Non-healthcare expenses as a percentage of gross contributions	6.7%	16.7%	7.0%
Non-healthcare expenditure per beneficiary per month	R128	R171	R131
Administration fees paid to the Administrator	R17,593,755	R1,904,795	R19,498,550
Average return on investments and cash	N/A	N/A	6.5%

2018	Plus	Primary	Total
Number of members at year end	6,847	568	7,415
Average number of members for the year	6,807	397	7,204
Number of beneficiaries at year-end	14,481	895	15,376
Average number of beneficiaries for the year	14,335	633	14,968
Proportion of dependants at year-end	1.1	0.6	1.1
Average age of beneficiaries	30.8	27.4	30.6
Pensioner ratio	4.4%	0.6%	4.2%
Average contributions net of savings per member per month	R3,042	R1,610	R2,963
Average contributions net of savings per beneficiary per month	R1,444	R1,009	R1,426
Average claims net of savings incurred per member per month	R3,018	R894	R2,901
Average claims net of savings incurred per beneficiary per month	R1,433	R561	R1,396
Average administration costs per member per month	R260	R262	R260
Average managed care: Managed services per member per month	R92	R92	R92
Average members' funds per member at year-end	N/A	N/A	R59,890
Relevant healthcare expenditure as a percentage of net contributions	97.9%	61.6%	96.8%
Relevant healthcare expenditure per average beneficiary per month	R1,414	R622	R1,380

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019 (continued)**

5. REVIEW OF OPERATIONS (CONTINUED)

5.1 OPERATIONAL STATISTICS (CONTINUED)

2018	Plus	Primary	Total
Managed care: Management services as a percentage of net contributions	3.0%	5.7%	3.1%
Non-healthcare expenses as a percentage of gross contributions	7.0%	16.3%	7.2%
Non-healthcare expenditure per beneficiary per month	R125	R116	R124
Administration fees paid to the Administrator	R16,335,149	R1,355,099	R17,690,248
Average return on investments and cash	N/A	N/A	1.2%

5.2 ACCUMULATED FUNDS RATIO

	2019	2018
	R	R
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per statement of financial position	456,478,013	431,444,826
Less: Cumulative unrealised gains on investments at fair value through profit or loss	<u>(74,835,094)</u>	<u>(67,660,747)</u>
Accumulated funds per Regulation 29 of the Act	<u>381,642,919</u>	<u>363,784,079</u>
Gross contributions	348,964,354	318,040,188
Accumulated funds ratio:		
Accumulated funds/gross contributions x 100%	<u>109.4%</u>	<u>114.4%</u>

5.3 OUTSTANDING CLAIMS

Movements in the outstanding claims provision are set out in note 5 to the summarised financial statements. The accuracy of the provision was tested against subsequent settlements.

6. INVESTMENTS IN AND LOANS TO THE EMPLOYER OR MEMBERS OF THE SCHEME AND TO OTHER RELATED PARTIES

The Scheme holds investments indirectly with the employer, but has granted no loans to the participating employer of the Scheme or any other related parties. Refer to note 8 of the summarised financial statements for related-party disclosures.

7. FIDELITY COVER

The Scheme has a fidelity policy, placed through Alexander Forbes, with Guardrisk Insurance Company. The sum insured is R120 million (2018: R120 million) (with a single claim not exceeding R60 million – 2018: R60 million) and extends to the Trustees, independent committee members, Principal Officer and Deputy Principal Officer of the Scheme.

8. ACTUARIAL SERVICES

The Scheme's actuaries, NMG Consultants and Actuaries (Pty) Ltd, have been consulted in the determination of the contribution and benefit levels.

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019 (continued)**

9. COMMITTEES OF THE BOARD OF TRUSTEES

The following committees are mandated by the Board of Trustees by means of written terms of reference as to their membership, authority and duties. These committees meet on a regular basis and when the need arises.

9.1 RISK AND AUDIT COMMITTEE

The Risk and Audit Committee operates in accordance with the provisions of the Act. The committee consists of five members of whom two are members of the Board of Trustees.

The committee met on the following three occasions during the course of the year:

- 11 April 2019;
- 25 July 2019; and
- 17 October 2019.

The Administrator, its Internal Auditors and the External Auditor of the Scheme are invited to attend all committee meetings and have unrestricted access to the Chairperson of the committee.

In accordance with the provisions of the Act, the primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems and financial reporting practices. Further objectives include ensuring that all material risks to which the Scheme is exposed, as identified by the Board of Trustees, are adequately managed. The external auditor formally reports to the committee on findings arising from the audit.

The members of the committee are:

Name	Designation	Date of appointment	Date of resignation
C Cowley	Independent member/Chairperson	23 November 2017	
L Clayton	Independent member	1 November 2015	
R Johnson	Member-elected Trustee	21 June 2018*	
G Lea	Employer-appointed Trustee	30 June 2018*	
R Faasen	Independent member	1 September 2019	
M Pienaar	Independent member	11 June 2015	30 April 2019
V Pierce	By invitation (Vice-Chairperson of the Board of Trustees)	3 August 2017	
H de Light	By invitation (Chairperson of the Board of Trustees)	11 June 2015	

* Re-appointed

A Visser attends in his capacity as Principal Officer.
P Botha attends in her capacity as Deputy Principal Officer.

9.2 INVESTMENT COMMITTEE

The primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the investment strategy of the Scheme.

The committee met on the following four occasions during the course of the year:

- 14 February 2019;
- 9 May 2019;
- 1 August 2019; and
- 14 November 2019.

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019 (continued)**

9. COMMITTEES OF THE BOARD OF TRUSTEES (CONTINUED)

9.2 INVESTMENT COMMITTEE (CONTINUED)

The members of the committee are:

Name	Designation	Date of appointment	Date of resignation
G Lea	Employer-appointed Trustee/Chairperson	30 June 2018*	
V Ramakuella	Employer-appointed Trustee	30 June 2018*	
R Johnson	Member-elected Trustee	21 June 2018*	
P Gerber	Independent member	3 August 2017	
V Pierce	Employer-appointed Trustee	1 January 2019	
H de Light	Invitee	21 June 2018*	
A Visser	Independent member	1 September 2019	
P Botha	Independent member	1 September 2019	

* Re-elected

9.3 CLINICAL COMMITTEE

The primary responsibility of the committee is to assist the Board of Trustees in its responsibility to oversee the Scheme's various managed care programmes and to ensure that all clinical risks to which the Scheme is exposed are identified and adequately managed.

The committee met on the following four occasions during the course of the year:

- 7 February 2019;
- 9 May 2019;
- 1 August 2019; and
- 3 October 2019.

The members of the committee are:

Name	Designation	Date of appointment	Date of resignation
M Bailey	Medical Advisor/Chairperson	11 June 2015	
V Pierce	Employer-appointed Trustee	3 August 2017	
H de Light	Invitee	21 June 2018*	
R Sattar	Alternate Member-elected Trustee	1 September 2019	
M Mahlaba	Member-elected Trustee	1 September 2019	
A Visser	Independent member	1 September 2019	
P Botha	Independent member	1 September 2019	

* Re-elected

9.4 EX GRATIA COMMITTEE

The primary responsibility of the committee is to assist the Board of Trustees in awarding additional benefits where pre-determined criteria have been met and the need is warranted.

The committee met on seven occasions during the course of the year.

Dates: 28 February 2019, 28 March 2019, 25 April 2019, 30 May 2019, 27 June 2019, 30 August 2019 and 31 October 2019

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019 (continued)**

9. COMMITTEES OF THE BOARD OF TRUSTEES (CONTINUED)

9.4 EX GRATIA COMMITTEE (CONTINUED)

The members of the committee are:

Name	Designation	Date of appointment	Date of resignation
M Bailey	Medical Advisor/Chairperson	11 June 2015	
H de Light	Member-elected Trustee	21 June 2018*	
V Pierce	Employer-appointed Trustee	1 January 2019	
J Dube	Member-elected Trustee	1 September 2019	
A Visser	Independent member	1 September 2019	
P Botha	Independent member	1 September 2019	

* Re-elected

10. MEETING ATTENDANCES

The following schedule sets out meeting attendances by members of the Board of Trustees and committees.

Trustee/Sub-Committee member	Board meetings		Risk and Audit Committee meetings		Investment Committee meetings		Clinical Committee meetings		Ex Gratia Committee meetings	
	A	B	A	B	A	B	A	B	A	B
Ms H de Light	5	4	-	-	-	-	4	1	7	5
Mr V Pierce	5	4	-	-	4	2	4	3	7	6
Mr G Lea	5	3	3	2	4	3	-	-	-	-
Mr J Dube	5	3	-	-	-	-	-	-	1	1
Mr V Ramakuella	5	5	-	-	4	4	-	-	-	-
Mr R Johnson	5	4	3	2	4	3	-	-	-	-
Ms E Mhlari	5	5	-	-	-	-	-	-	-	-
Ms M Mahlaba	5	5	-	-	-	-	1	1	-	-
Ms Z Ameeroedien	5	4	-	-	-	-	-	-	-	-
Ms R Sattar	5	4	-	-	-	-	1	1	-	-
Mr C Cowley	-	-	3	3			-	-	-	-
Ms P Gerber	-	-	-	-	4	4	-	-	-	-
Mr M Pienaar	-	-	1	0	-	-	-	-	-	-
Mr L Clayton	-	-	3	3	-	-	-	-	-	-
Mr R Faasen	-	-	1	1	-	-	-	-	-	-
Dr M Bailey	-	-	-	-	-	-	4	4	7	7
Mr A Visser*	5	5	3	3	4	3	4	2	7	6
Ms P Botha#	5	5	3	3	4	4	4	4	7	7

A – Total possible number of meetings could have attended

B – Actual number of meetings attended

* – A Visser attends in his capacity as Principal Officer

– P Botha attends in her capacity as Deputy Principal Officer

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019 (continued)**

11. RISK TRANSFER ARRANGEMENTS

The Scheme entered into risk transfer arrangements with the following service providers:

- Centre for Diabetes and Endocrinology (Pty) Ltd (CDE): In terms of the arrangement, CDE provides a comprehensive programme to members of the Scheme with diabetes at a fixed monthly rate per beneficiary on the programme.
- ER24 EMS (Pty) Ltd (ER24): In terms of the arrangement, ER24 provides ambulance services to the beneficiaries of the Scheme at a fixed rate per member per month.
- Momentum Health Solutions (Pty) Ltd (MHS): In terms of the arrangement, MHS provides defined primary care services on the Primary Option at a fixed rate per beneficiary per month.

12. SUBSEQUENT EVENTS

The outbreak of the coronavirus (COVID-19) during mid-January has disrupted global economic markets. In making their estimates and judgements as at 31 December 2019, the Board of Trustees took into consideration the economic conditions and forecasts as at that date. The Board of Trustees will continue to consider the potential impact of the outbreak on significant estimates and judgements going forward.

The following events have developed since 31 December 2019:

- On 23 March 2020, the President of South Africa announced a nationwide lockdown for a period of 21 days, which commenced on 26 March 2020, as a measure to curb the spread of COVID-19.
- On 27 March 2020, the rating agency Moody's announced its decision of downgrading South Africa's long-term foreign and local currency debt rating from Ba1 to Baa3 and maintains a negative outlook of the country. The sovereign downgrade will further add to the prevailing financial market stress.
- On 9 April 2020, the president announced a two-week extension of the national lockdown in an effort to curb the spread of COVID-19 until the end of April 2020. On 23 April 2020, the president announced that the country would be moving towards a graded alert-level system. South Africa's lockdown moved to Alert Level 4 from 1 May 2020, which allowed some activity subject to extreme requirements.

The effects of the COVID-19 outbreak and the downgrading announcements are non-adjusting subsequent events for the 2019 year-end in terms of IAS 10, because the significant changes in the economic conditions occurred as a result of events only arising after 31 December 2019.

Below is the assessment of each of the Scheme's significant balance sheet items:

The Scheme's investment portfolio

The Scheme's investments are measured at fair value, as disclosed in the statement of financial position and, as such, any conditions that existed in the market would have been incorporated into a fair-value measurement at 31 December 2019. Given the fact that the effects of the COVID-19 outbreak did not have a significant impact on the global and local market share prices until January 2020, the amounts recognised as at 31 December 2019 remain unchanged.

The market value of the Scheme's total investment position was R244 million as at 30 April 2020, representing a 12% decline in unrealised value compared to 31 December 2019. At 31 December 2019, the solvency ratio was 109.4%. The unrealised gains have been assessed and even with a 40% decrease, there is still sufficient headroom in terms of Scheme solvency. Therefore, the overall solvency is still in a strong position and the Scheme will continue to monitor this in the upcoming period.

Furthermore, the Scheme's exposure to market risk in note 9 of the summarised financial statements was based on the Scheme's best estimate of possible rate changes. Given the continued uncertainty on the impact and duration of the COVID-19 pandemic, the analyses may not be indicative of the possible outcome in the foreseeable future.

Accounts receivables: Allowance for impairment losses of healthcare receivables

Allowance for impairment losses as at 31 December 2019 have been based on incurred events at balance sheet date in accordance with IAS 39. Given that the disruptions to the economy only occurred in March 2020, the amount recognised as at 31 December 2019 remains unchanged.

12. SUBSEQUENT EVENTS (CONTINUED)

Accounts receivables: Allowance for impairment losses of healthcare receivables (continued)

The Scheme is a restricted membership medical scheme. The majority of the accounts receivables relates to contribution receivables. Given that the employer is an essential service provider and these balances are by nature short term, a minimal impact is expected on the allowance of impairment losses relating to COVID-19.

Personal medical savings account liability

The carrying amount of members' personal medical savings accounts is deemed to be equal to their fair-value amounts payable on demand. The liability is classified as current liability and therefore the amount recognised and remains unchanged.

Outstanding risk claims provision

Provision for outstanding risk claims, as disclosed in note 5 of the summarised financial statements, is an estimate of the ultimate costs of settling all claims incurred that have occurred before the end of the reporting period, but have not been reported to the Scheme. Given the fact that the risk claims provision as at 31 December 2019 relates to 2019 and prior claims, the claims provision remains unchanged.

The impact on the Scheme's performance since 31 December 2019 is as follows:

Contribution income

It is unclear how the restrictions imposed by the Government during the national lockdown will impact member contribution collection. The Scheme is a restricted membership medical scheme. The employer has been identified as an essential service provider and therefore a minimal impact is expected on the contribution income relating to COVID-19.

Investment returns

Since the beginning of 2020, due to the volatility of the global and local markets, the Scheme has been experiencing unrealised losses on investments. The impact of COVID-19 on the Scheme's investments is still highly uncertain and therefore very difficult to predict. The South African Reserve Bank (Sarb) cut interest rates in March and in April by 100 basis points. A shock to the global and local markets continues to be experienced. Investment returns earned for the three-month period ended 31 March 2020 was R6.1 million (31 March 2019: R5.7 million). The performance of the Scheme's investment portfolio continues to be monitored by the Scheme's asset managers, as well as the Scheme's investment consultant.

Scheme's claims

The Scheme's claims impact relating to COVID-19 is still uncertain and therefore very difficult to predict. The estimated impact of COVID-19 on claims has been based on the best available statistical data at the date of approval of the financial statements and derived from the international experience of COVID-19. The current estimates of the infection rates and hospital admission rates change frequently and are subject to a significant degree of uncertainty. The potential cost of treatment, especially in-hospital treatment for patients with serious symptoms, is also unknown at this stage. Potential cost scenarios were based on a range of prevalence rates and assumed costs of treatment, both of which are highly uncertain. The sensitivity testing performed to ascertain the impact on the Scheme's solvency position and members' funds indicated that the Scheme's going-concern status is not at risk.

Conclusion

Based on the current situation and the Scheme's analysis of the information on hand, the Board is confident of the Scheme's ability to operate under the going-concern basis for the next financial year. The Scheme continues to monitor the disruptions on member contributions due to the national lockdown, it continues to be operational and remains focused to serving its members. The Scheme will work closely with the Council for Medical Schemes for obtaining any developing guidelines.

13. NON-COMPLIANCE MATTERS

Contraventions for which exemption was applied for from the Council for Medical Schemes

13.1 CONTRAVENTION OF SECTION 35(8)(A) AND SECTION 35(8)(C)

Nature and impact

The Scheme holds an indirect investment in the participating employer via investments placed with Allan Gray. This is in contravention of Section 35(8)(a) of the Act, as the Scheme is not allowed to hold investments in any participating employer.

The Scheme holds an indirect investment in Momentum Metropolitan Holdings Limited, an investment placed with Allan Gray and Visio. This is in contravention of Section 35(8)(c) of the Act, as the Scheme is not allowed to hold shares in the holding company of an administrator.

Causes of the non-compliance

The holding of these shares in the portfolio is incidental, as the Scheme does not have control over the underlying assets in the portfolio.

Corrective course of action

The Scheme has applied for an exemption renewal on 27 March 2019 from the Council for Medical Scheme and received confirmation of an exemption on 11 December 2019. The exemption will be valid until 30 November 2022, subject to renewal.

13.2 NON-COMPLIANCE WITH SECTION 8(H) OF THE ACT – INVESTMENT IN DERIVATIVES

Nature and impact

The Scheme has an investment in Stanlib Brandywine, which has an underlying investment in the Stanlib Global Bond Fund. The Stanlib Global Bond Fund makes use of foreign derivatives as part of its investment strategy. This is in contravention of Section 8(h) of the Act, as well as Regulation 30.

Causes of the non-compliance

The holding of these derivatives in the portfolio is incidental, as the Scheme does not have control over the underlying assets in the portfolio.

Corrective course of action

The Scheme applied for an exemption renewal during July 2018, with confirmation or receipt of application during February 2019. The Scheme has followed up with the Council for Medical Schemes regularly regarding the formal exemption approval.

Contraventions for which exemption was not applied for from the Council for Medical Schemes

13.3 CONTRAVENTION OF SECTION 26(7) OF THE MEDICAL SCHEMES ACT

Nature and impact

In terms of Section 26(7) of the Act, contributions should be received at the latest three days after it is due. An amount of R2 241 777 (2018: R302 660) was still outstanding by more than three days after it was due, as at 31 December 2019. The amount was received on 7 January 2020.

Causes for the failure

The non-compliance relates to one instance during the year when contributions were received more than three days after the due date.

13. NON-COMPLIANCE MATTERS (CONTINUED)

***Contraventions for which exemption was not applied for from the Council for Medical Schemes
(continued)***

13.3 CONTRAVENTION OF SECTION 26(7) OF THE MEDICAL SCHEMES ACT (CONTINUED)

Corrective action

Management continues to communicate to employer groups to emphasise the importance of prompt payment.

13.4 NON-COMPLIANCE WITH SECTION 33(2) OF THE ACT – OPTION OPERATING LOSS

Nature and impact

In terms of Section 33(2) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance and will be financially sound. As at the 31 December 2019, the Plus Option was in a net healthcare deficit position, thereby contravening Section 33(2) of the Act. The net healthcare deficit amounted to R5,650,303 (2018 deficit: R16,441,480).

Causes of the non-compliance

The Scheme experienced higher-than-anticipated high-cost claims during the year, which resulted in the claims incurred being greater than the budgeted amount.

Corrective course of action

The Trustees continue to monitor the performance of the Scheme and they will make appropriate interventions during the annual benefit review process. As the solvency ratio at reporting date was 109.4% (2018: 114.4%), the Board of Trustees is comfortable that the Scheme will remain compliant with the minimum solvency ratio prescribed by the Medical Schemes Act.

Independent Auditor's Report on the Summarised Financial Statements

To the Members of Pick n Pay Medical Scheme

Opinion

The summarised financial statements, as set out on pages 29 to 47, which comprise the summarised statement of financial position as at 31 December 2019, the summarised statement of comprehensive income, the summarised statement of changes in funds and reserves and the summarised statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of Pick n Pay Medical Scheme for the year ended 31 December 2019.

In our opinion, the accompanying summarised financial statements are consistent, in all material respects, with the audited financial statements, in accordance with the content and disclosure requirements of Circular 6 of 2013 issued by the Council for Medical Schemes.

Summarised Financial Statements

The summarised financial statements do not contain all the disclosures required by International Financial Reporting Standards and the Medical Schemes Act of South Africa. Reading the summarised financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The summary financial statements and audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated 8 May 2020.

Trustees' Responsibility for the Summarised Financial Statements

The trustees are responsible for the preparation of the summarised financial statements in accordance with the content and disclosure requirements of Circular 6 of 2013 issued by the Council for Medical Schemes.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summarised financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance International Standards on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.



Report on Other Legal and Regulatory Requirements

As required by the Council for Medical Schemes' Circular 38 of 2018, *Audit Tenure*, we report that Ernst & Young Inc. has been the auditor of Pick n Pay Medical Scheme for 2 years.

The engagement partner, David Christian, has been responsible for the Pick n Pay Medical Scheme audit for 2 year.

Ernst & Young Inc.

Ernst & Young Inc.

Director: David Christian

Registered Auditor

Chartered Accountant (SA)

9 June 2020

3rd Floor, Waterway House

3 Dock Road

V&A Waterfront

Cape Town

**PICK N PAY MEDICAL SCHEME
SUMMARISED FINANCIAL STATEMENTS**

**SUMMARISED STATEMENT OF FINANCIAL POSITION
as at 31 December 2019**

	Notes	2019 R	2018 R
ASSETS			
Non-current assets		277,802,067	258,238,113
Financial assets at fair value through profit or loss	2	277,802,067	258,238,113
Current assets		292,150,847	276,987,504
Insurance and other receivables		3,054,346	2,894,881
Cash and cash equivalents		289,096,501	274,092,623
Scheme cash and cash equivalents		197,036,620	189,727,674
Personal medical savings account investment	4	92,059,881	84,364,949
Total assets		<u>569,952,914</u>	<u>535,225,617</u>
FUNDS AND LIABILITIES			
Members' funds		456,478,013	431,444,826
Accumulated funds		456,478,013	431,444,826
Current liabilities		113,474,901	103,780,791
Personal medical savings account liability	3	94,032,877	86,138,364
Insurance and financial liabilities		10,795,770	8,726,008
Outstanding risk claims provision	5	8,646,254	8,916,419
Total funds and liabilities		<u>569,952,914</u>	<u>535,225,617</u>

**PICK N PAY MEDICAL SCHEME
SUMMARISED FINANCIAL STATEMENTS**

**SUMMARISED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019**

	Notes	2019 R	2018 R
Risk contribution income	6	281,993,940	256,142,449
Relevant healthcare expenditure		(259,018,715)	(247,955,148)
Net claims incurred		(263,928,974)	(250,782,195)
Risk claims incurred	7	(255,745,973)	(243,835,681)
Accredited managed healthcare services		(8,577,641)	(7,971,305)
Third-party claim recoveries		394,640	1,024,791
Net income on risk transfer arrangements	7	4,910,259	2,827,047
Risk transfer arrangements premiums paid		(17,350,489)	(14,903,392)
Recoveries from risk transfer arrangements		22,260,748	17,730,439
Gross healthcare result		22,975,225	8,187,301
Administration fees and other operative expenses		(24,546,196)	(22,503,296)
Movement in provision for impairment on insurance receivables		(26,259)	(432,887)
Net healthcare result		(1,597,230)	(14,748,882)
Other income		33,902,694	6,216,098
Capitalised interest and dividends		24,622,229	28,493,229
Realised gains on financial assets		1,989,831	4,699,255
Unrealised gain/(loss) on financial assets		7,174,348	(27,109,870)
Sundry income		116,286	133,484
Other expenditure		(7,272,277)	(7,429,827)
Asset management fees		(226,930)	(855,449)
Interest paid on personal medical savings account	3	(7,045,347)	(6,574,378)
Net profit/(loss) for the year		25,033,187	(15,962,611)
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		25,033,187	(15,962,611)

**PICK N PAY MEDICAL SCHEME
SUMMARISED FINANCIAL STATEMENTS**

**SUMMARISED STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2019**

	R	R
	Accumulated funds	Members' funds
Balance as at 1 January 2018	447,407,437	447,407,437
Net loss for the year	(15,962,611)	(15,962,611)
Balance as at 1 January 2019	431,444,826	431,444,826
Net profit for the year	25,033,187	25,033,187
Balance as at 31 December 2019	456,478,013	456,478,013

**PICK N PAY MEDICAL SCHEME
SUMMARISED FINANCIAL STATEMENTS**

**SUMMARISED STATEMENT OF CASH FLOWS
for the year ended 31 December 2019**

	Notes	2019 R	2018 R
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit/(loss) for the year		25,033,187	(15,962,611)
- Realised gain on disposal of financial assets at fair value through profit or loss		(730,271)	(4,699,255)
- Investment income		(17,576,882)	(21,918,851)
- Capitalised interest and dividends		(4,818,253)	(7,943,733)
- Unrealised (gain)/loss on financial assets at fair value through profit or loss	2	(7,715,430)	27,109,870
- Interest expense on personal medical savings accounts	3	7,045,347	6,574,378
Cash flows generated/(utilised) in operations before working capital changes		1,237,698	(16,840,202)
Working capital changes		9,530,559	10,304,899
- Increase in insurance and other receivables		(163,551)	(2,067,348)
- Increase in insurance and financial liabilities		2,069,762	1,377,030
- Increase in personal medical savings accounts liability		7,894,513	8,089,307
- (Decrease)/Increase in outstanding risk claims provision		(270,165)	2,905,910
Cash generated from/(utilised in) operations		10,768,257	(6,535,303)
Interest and dividends received		17,580,968	21,921,885
Interest paid on personal medical savings accounts	3	(7,045,347)	(6,574,378)
Net cash flow generated in operating activities		21,303,878	8,812,204
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposals of financial assets at fair value through profit or loss	2	-	8,800,000
Additions to financial assets at fair value through profit or loss	2	(6,300,000)	(8,800,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS		15,003,878	8,812,204
Cash and cash equivalents at the beginning of the year		274,092,623	265,280,419
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		289,096,501	274,092,623

**PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the summarised financial statements are set out below. The policies applied are consistent with the prior year, except otherwise indicated.

Statement of compliance

The summarised financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and in accordance with the requirements of the Medical Schemes Act, No 131 of 1998. In addition, the summarised statement of comprehensive income is prepared in accordance with Circular 41 of 2012 issued by the Council for Medical Schemes that set out their interpretation of IFRS as it relates to the summarised statement of comprehensive income for medical schemes in South Africa.

1.1 BASIS OF PREPARATION

The summarised financial statements provide information about the financial position, results of operations and changes in the financial position of the Scheme. These have been prepared under the historic cost convention, except for financial assets at fair value through profit or loss.

The summarised financial statements are prepared:

- in accordance with the recognition and measurement requirements of IFRS;
- in the manner required by the Act; and
- in accordance with the presentation and disclosure requirements of International Financial Reporting Standards IAS 34, Interim Financial Reporting.

The Scheme's functional and presentation currency is the rand, rounded to the nearest rand.

These summarised consolidated audited financial statements are consistent in all respects with the audited annual financial statements of the company for the period ended 31 December 2019. A copy of these audited financial statements can be obtained from the Scheme on request by parties entitled to such information.

Standards issued and effective in the current year

IFRS 16 Leases

IFRS 16: Leases became effective on 1 January 2019. This standard is applicable for all leases, including leases of right-of-use assets in a sublease. The standard hugely impacts lease accounting for lessees. As the Scheme does not have leases in place, there is no material impact on the implementation of the standard.

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12 or specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The receipts and accruals of the Scheme are exempt from taxation under Section 10(1)(d) of the Income Tax Act and, as such, IFRIC Interpretation 23 Uncertainty over Income Tax Treatment has no impact on the Scheme.

Critical judgments

The preparation of the summarised financial statements necessitates the use of estimates and assumptions, including the outstanding claims provision. These estimates and assumptions affect the reported amount of assets, liabilities and contingent liabilities at the reporting date, as well as affecting the reported income and expenditure for the year. The actual outcome may differ from these estimates, possibly significantly. For further information on critical estimates and judgments, refer to note 5.

**PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)**

1.1 BASIS OF PREPARATION (CONTINUED)

Critical judgments (continued)

The Trustees have applied judgement in assessing the impact of COVID-19 after the year-end. For further information, refer to note 11.

2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	R	R
Fair value at the beginning of the year	258,238,113	272,704,995
Additions	6,300,000	8,800,000
Capitalised interest and dividends	4,561,182	8,296,333
Disposals	-	(8,800,000)
Realised gain on financial assets at fair value through profit or loss	730,271	4,699,255
Unrealised gain/(loss) on revaluation of financial assets at fair value through profit or loss	7,715,430	(27,109,870)
Investment income/(expenses)	257,071	(352,600)
Fair value at the end of the year	<u>277,802,067</u>	<u>258,238,113</u>

The investments included above represent investments in:

Allan Gray Equity Fund	61,373,244	58,733,301
Sesfikile Property Fund	16,955,705	16,481,266
Abax Prescient Equity Fund	65,772,320	61,463,696
Stanlib Brandywine	30,607,595	28,834,008
Visio Capital Fund	39,291,608	37,768,252
Coronation Strategic Bond Fund	63,801,595	54,957,590
	<u>277,802,067</u>	<u>258,238,113</u>

A register of investments is available for inspection at the registered office of the Scheme.

3. PERSONAL MEDICAL SAVINGS ACCOUNT LIABILITY – MANAGED BY THE SCHEME ON BEHALF OF ITS MEMBERS

Balance of personal medical savings account liability at the beginning of the year	86,138,364	78,049,057
Less: Prior year advances on personal medical savings accounts	(67,385)	(125,722)
Adjusted balance on personal medical savings accounts at the beginning of the year	<u>86,070,979</u>	<u>77,923,335</u>
Add:		
Savings account contributions received or receivable (note 6)	66,970,414	61,897,739
Interest earned on monies invested	7,045,347	6,574,378
Less:		
Claims paid out of savings (note 7)	(61,256,958)	(56,238,492)
Refunds on death or resignation in terms of Regulation 10(4)	(4,847,152)	(4,085,981)
Add:		
Advance on personal medical savings account	50,247	67,385
Balance on personal medical savings account at the end of the year	<u>94,032,877</u>	<u>86,138,364</u>

**PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)**

3. PERSONAL MEDICAL SAVINGS ACCOUNT LIABILITY – MANAGED BY THE SCHEME ON BEHALF OF ITS MEMBERS (CONTINUED)

In accordance with the rules of the Scheme, the personal medical savings account is underwritten by the Scheme.

Per the rules of the Scheme, interest on personal medical savings accounts only accrues to members on a monthly basis on positive balances existing at that date.

The personal medical savings account contains a demand feature in terms of Regulation 10 of the Act, which requires that any credit balance on a member's personal medical savings account must be taken as a cash benefit when the member terminates his or her membership of the Scheme and then registers on another medical scheme without a personal medical savings account or does not register on another medical scheme.

It is estimated that claims that are to be paid out of members' personal medical savings accounts in respect of claims incurred in 2019, but not yet reported, will amount to R1,857,373 (2018: R1,416,631) (note 5).

As from December 2012, the Scheme ring-fenced the investment of the personal medical savings account funds in a separate Ninety One Plc Stable Money Fund. As from 1 January 2013, actual interest earned on the investment has been allocated on a member level. Advances on personal medical savings accounts are funded by the Scheme and are included in insurance receivables. The Scheme does not charge interest on advances on personal medical savings accounts.

As at year-end the carrying amount of members' personal medical savings accounts were deemed to be equal to their fair values, which is of a short-term nature. The personal medical savings accounts were invested on behalf of members, as disclosed in note 4. The difference between the investment and the liability is due to timing differences.

4. PERSONAL MEDICAL SAVINGS ACCOUNT INVESTMENT – MANAGED BY THE SCHEME ON BEHALF OF ITS MEMBERS

	2019	2018
	R	R
Ninety One Plc Stable Money Fund	92,059,881	84,364,949

The personal medical savings account monies were invested on behalf of members in a market-linked policy. The effective interest rate on the personal medical savings accounts was 8.52% (2018: 8.63%). The total interest earned was R7 045 347 (2018: R6,574,378). The investment is aligned in the following month after the month-end claims run has occurred and when interest earned for the month has been received.

5. OUTSTANDING RISK CLAIMS PROVISION

	Covered by risk transfer arrangements	Not covered by risk transfer arrangements
2019	R	R
Outstanding claims provision	173,357	8,472,897
	<u>173,357</u>	<u>8,472,897</u>
Analysis of movements in outstanding claims		
Balance at beginning of year	171,097	8,745,322
Payments in respect of prior year	(171,097)	(10,300,359)
Over/(Under) provision in respect of prior year	-	(1,555,037)
Adjustment for current year	173,357	10,027,934
Balance at end of year	<u>173,357</u>	<u>8,472,897</u>
Total outstanding claims provision at end of year		<u>8,646,254</u>

**PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)**

5. OUTSTANDING RISK CLAIMS PROVISION (CONTINUED)

	Covered by risk transfer arrangements	Not covered by risk transfer arrangements
2018	R	R
Outstanding claims provision	171,097	8,745,322
	<u>171,097</u>	<u>8,745,322</u>
Analysis of movements in outstanding claims		
Balance at beginning of year	139,500	6,010,509
Payments in respect of prior year	(139,500)	(6,456,446)
Over/(Under) provision in respect of prior year	-	(445,937)
Adjustment for current year	171,097	9,191,259
Balance at end of year	<u>171,097</u>	<u>8,745,322</u>
Total outstanding claims provision at end of year		<u>8,916,419</u>
	2019	2018
Analysis of outstanding risk claims provision	R	R
Estimated gross claims	10,330,270	10,161,953
Less: Estimated recoveries from personal medical savings accounts (note 5)	(1,857,373)	(1,416,631)
IBNR covered by risk transfer arrangements	173,357	171,097
	<u>8,646,254</u>	<u>8,916,419</u>

The provision for outstanding claims (also referred to as claims incurred but not reported (IBNR)) is determined according to the following assumptions and methodologies:

Assumptions and sensitivities

Process used to determine the assumptions:

The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out monthly. 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.

Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances, information available from managed care: management services and historical evidence of the size of similar claims. The provision is based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by category of claims due to differences in the underlying insurance contract, claim complexity, the volume of claims, the individual severity of claims, determining the occurrence date of a claim and reporting lags.

The cost of outstanding claims is estimated using statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers 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 until the full extent of the claims to be paid is known. It is assumed that payments will emerge in a similar way in each service month.

**PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)**

5. OUTSTANDING RISK CLAIMS PROVISION (CONTINUED)

Assumptions and sensitivities (continued)

Process used to determine the assumptions (continued):

The proportional increase in the known cumulative payments from one development month to the next can then be used to calculate payments for future development months.

The method used is consistent with that used in prior years and considers categories of claims and observes historical claims developments. 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 (such as changes in claim reserving procedures);
- economic, legal, political and social trends (resulting in different than expected levels of inflation and/ or minimum medical benefits to be provided);
- changes in the composition of membership; and
- random fluctuations, including the impact of large losses.

Sensitivity of outstanding claims provision

The table outlines the sensitivity of these percentages and the impact on the Scheme's liabilities if an incorrect assumption is used.

Other assumptions

- The actual demographics of the Scheme were used, including all membership movements for the period.
- The effect of ageing of the population on the utilisation of health services is automatically incorporated.
- Utilisation escalation incorporates the impact of HIV/AIDS.

The assumed percentages of claims outstanding at the end of the period are as follows:

	2019	2018
	%	%
Claims outstanding for services rendered in:		
- December	9.0	12.0
- November	4.5	5.0
- October	3.0	3.0
- September	1.5	2.0
- August and prior	1.0	1.0

The impact of the sensitivity of a change in the assumed claims outstanding assumption, resulting in an increase in the provision, is set out below:

	2019	2018
	R	R
Effect of a 1% increase	289,697	932,289
Effect of a 2% increase	1,194,020	1,884,707
Effect of a 3% increase	2,118,446	2,208,104

The Scheme believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions that could differ when claims arise.

PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

6. RISK CONTRIBUTION INCOME

	2019	2018
	R	R
Gross contributions per registered rules	348,964,354	318,040,188
Less: Personal medical savings contributions received (note 3)	(66,970,414)	(61,897,739)
Risk contribution income per statement of comprehensive income	<u>281,993,940</u>	<u>256,142,449</u>

The savings contributions are received by the Scheme in terms of Regulation 10(1) and the Scheme's registered rules. Refer to note 3 to the financial statements for more detail on how these monies were utilised.

7. RISK CLAIMS INCURRED

Claims incurred, excluding claims incurred in respect of risk transfer arrangements

Current year claims per registered rules	286,269,286	273,598,412
Movement in outstanding risk claims provision	8,472,897	8,745,322
Under-provision in the prior year (note 5)	(1,555,037)	(445,937)
Adjustment for current year (note 5)	10,027,934	9,191,259
	<u>294,742,183</u>	<u>282,343,734</u>
Less:		
Claims paid from personal medical savings accounts (note 3)	(61,256,958)	(56,238,492)
Risk claims incurred	<u>233,485,225</u>	<u>226,105,242</u>
Total claims incurred excluding risk transfer arrangements	233,485,225	226,105,242

Claims incurred in respect of risk transfer arrangements

Current year claims	22,260,748	17,730,439
Claims incurred per the statement of comprehensive income	<u>255,745,973</u>	<u>243,835,681</u>
Net income on risk transfer arrangements		
Premiums paid	(17,350,489)	(14,903,392)
Recoveries received	22,260,748	17,730,439
Net income on risk transfer arrangements	<u>4,910,259</u>	<u>2,827,047</u>

The Scheme entered into a risk transfer arrangement with the Centre for Diabetes & Endocrinology (Pty) Ltd (CDE). In terms of the arrangement, CDE provides a comprehensive program for members of the Scheme with diabetes at a fixed monthly rate per beneficiary on the programme.

A risk transfer arrangement was entered with ER24. In terms of the arrangement, ER24 provides ambulance services to the beneficiaries of the Scheme at a fixed rate per member per month.

The Scheme also entered into a risk transfer arrangement with Momentum Health Solutions (Pty) Ltd (MHS). In terms of the arrangement, MHS provides defined primary care services for the Primary Option at a fixed rate per beneficiary per month.

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

**PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)**

8. RELATED-PARTY DISCLOSURES

Parties with significant influence over the Scheme

Momentum Health Solutions (Pty) Ltd (MHS) (formally known as MMI Health [Pty] Ltd) has significant influence over the Scheme, as it provides financial and operational information on which policy decisions are based, but does not control the Scheme. MHS provides administration services and risk transfer arrangements to the Scheme.

NMG Consultants and Actuaries (Pty) Ltd (NMG) has significant influence over the Scheme, as they provide operational information on which policy decisions are based, but do not control the Scheme. NMG provides consulting and actuarial services.

Willis Towers Watson Actuaries and Consultants (Pty) Ltd (WTW) has significant influence over the Scheme, as they provide operational information on which policy decisions are based, but do not control the Scheme. WTW provides investment consulting services.

The Pick n Pay Employer Group has significant influence over the Scheme, as it can appoint 50% of the Board of Trustees.

These entities do not have significant influence for the purposes of accounting for associates under IFRS.

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, the Principal Officer, Deputy Principal Officer and members of committees.

Close family members include family members of the Board of Trustees, Principal Officer, Deputy Principal Officer and members of the committees.

Transactions and balances with related parties and parties with significant influence over the Scheme

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

	2019	2018
	R	R
Summarised statement of comprehensive income		
Gross contributions received (key management personnel)	845,352	731,144
Claims incurred (key management personnel)	1,345,701	919,492
Interest paid on personal medical savings accounts (key management personnel)	14,261	13,121
Compensation (key management personnel)		
- Medical Advisor (key management personnel)	832,152	787,751
Administrator's fee (MHS)	19,498,550	17,690,248
Risk transfer arrangement fee and managed care fee (MHS)	5,924,882	1,729,695
Consulting fee (NMG)	2,868,330	2,862,095
Investment consulting fee (WTW)	124,976	116,586
Trustee travel	87,120	-
Summarised statement of financial position		
Personal medical savings account liability (key management personnel)	204,409	173,581
Investment consulting fee (WTW) (included in accrued expenses)	31,941	29,210
Reimbursement of postage/printing cost payable to MHS (included in accrued expenses)	15,802	49,159
NMG Actuaries	239,027	-
Trustee travel	20,087	-

8. RELATED-PARTY DISCLOSURES (CONTINUED)

The terms and conditions of the related-party transactions and transactions with those who have significant influence over the Scheme were as follows:

Contributions received (key management personnel)

This constitutes the contributions paid by the related parties as members of the Scheme, in their individual capacities. All contributions were at the same terms as applicable to third parties.

Claims incurred (key management personnel)

This constitutes amounts claimed by the related parties, in their individual capacities as members of the Scheme. All claims were paid out in terms of the rules of the Scheme, as applicable to third parties.

Compensation (key management personnel)

This constitutes payments to the Scheme's Medical Advisor in terms of the contract with the Scheme. The Trustees, Principal Officer and Deputy Principal Officer are not remunerated by the Scheme.

Trustee travel (key management personnel)

This constitutes Trustee travelling re-imbursable to the Employer Group.

Administration fees

The administration agreement with MHS is in terms of the rules of the Scheme and in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite, but subject to the right of either party to terminate the agreement by giving not less than 90 days' notice. The outstanding balance bears no interest and is due within 30 days.

Risk transfer arrangement

The risk transfer agreement with MHS is in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite, but subject to the right of either party to terminate the agreement by giving not less than one month's notice. The outstanding balance bears no interest and is due within 30 days.

Personal medical savings account balances and related interest

The amounts owing to the related parties relate to personal medical savings account balances that are held and managed on their behalf. In line with the terms applied to third parties, the balances earn interest at the effective interest rate that accrues to members. The amounts are all current and are payable on demand should an appropriate claim be issued or the member exit the Scheme.

Actuarial and consulting fees

The agreement with NMG is in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite, but subject to the right of either party to terminate the agreement by giving not less than three months' notice. The outstanding balance bears no interest and is due within 30 days.

Investment consulting fees

The agreement with WTW is in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite, but subject to the right of either party to terminate the agreement by giving not less than a month's notice. The outstanding balance bears no interest and is due within 30 days.

PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

9. FINANCIAL RISK MANAGEMENT

Fair value estimation

The fair value of financial assets at fair value through profit-or-loss investments is based on quoted published prices at the reporting date. The financial instruments noted below, while valued on quoted prices, are not sufficiently actively traded to be classified as level 1 financial instruments.

The following methods and assumptions were used to estimate the fair values:

The fair values of the quoted notes and bonds are based on price quotations at the reporting date. The fair value of unquoted instruments and other financial liabilities, as well as other non-current financial liabilities, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. In addition to being sensitive to a reasonably possible change in the forecast cash flows or the discount rate, the fair value of the equity instruments is also sensitive to a reasonably possible change in the growth rates. The valuation requires management to use unobservable inputs in the model, of which the significant unobservable inputs are disclosed in the tables below. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.

The tables below illustrate the fair values of financial assets by hierarchy level.

At 31 December 2019	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Reclassification</i>
	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>
Financial assets at fair value through profit or loss				
Collective investment schemes	-	152,627,228	-	-
Market-linked policies	-	125,174,839	-	-
Cash and cash equivalents				
Collective investment schemes	-	36,149,412	-	-
Market-linked policies	-	225,148,445	-	-
Current accounts	-	27,798,644	-	-
Ninety One Plc	-	566,898,568	-	-

At 31 December 2018	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Reclassification</i>
	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>
Financial assets at fair value through profit or loss				
Collective investment schemes	-	144,547,222	-	-
Market-linked policies	-	113,690,891	-	-
Cash and cash equivalents				
Collective investment schemes	-	26,007,652	-	-
Market-linked policies	-	213,416,793	-	-
Current accounts	-	34,668,178	-	-
Total	-	532,330,736	-	-

The hierarchy levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. These are readily available in the market and are normally obtainable from multiple sources.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Scheme for similar financial instruments.

**PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)**

10. CONTINGENT ASSET

At 31 December 2019 the Scheme had pending motor vehicle accident recoveries submitted to the Road Accident Fund (RAF) for assessment. These recoveries will only be accounted for when an amount is virtually certain to be received from the RAF. The value of pending claims at year-end amounted to R5,451,261 (2018: R3,874,144).

11. SUBSEQUENT EVENTS

The outbreak of the coronavirus (COVID-19) during mid-January has disrupted global economic markets. In making their estimates and judgements as at 31 December 2019 (as disclosed in note 12 of the report of the Board of Trustees), the Board of Trustees took into consideration the economic conditions and forecasts as at that date. The Board of Trustees will continue to consider the potential impact of the outbreak on significant estimates and judgements going forward.

The following events have developed since 31 December 2019:

- On 23 March 2020, the President of South Africa announced a nationwide lockdown for a period of 21 days, which commenced on 26 March 2020, as a measure to curb the spread of COVID-19.
- On 27 March 2020, the rating agency Moody's announced its decision to downgrade South Africa's long-term foreign and local currency debt ratings from Ba1 to Baa3 and maintains a negative outlook of the country. The sovereign downgrade will further add to the prevailing financial market stress.
- On 9 April 2020, the president announced a two-week extension of the national lockdown in an effort to curb the spread of COVID-19 until the end of April 2020. On 23 April 2020, the president announced that the country was moving towards a graded alert level system. South Africa's lockdown moved to Alert Level 4 from 1 May 2020, which allows some activity, subject to extreme requirements.

The effects of the COVID-19 outbreak and the downgrading announcements are non-adjusting subsequent events for the 2019 year-end in terms of IAS 10, because the significant changes in the economic conditions occurred as a result of events only arising after 31 December 2019.

Below is the assessment of each of the Scheme's significant balance sheet items:

Scheme's investment portfolio

The Scheme's investments are measured at fair value, as disclosed in the statement of financial position and, as such, any conditions that existed in the market would have been incorporated into a fair value measurement at 31 December 2019. Given the fact that the effects of the COVID-19 outbreak did not have a significant impact on the global and local market share prices until January 2020, the amounts recognised as at 31 December 2019 remain unchanged.

The market value of the Scheme's total investment position was R244 million as at 30 April 2020, representing a 12% decline in unrealised value compared to 31 December 2019. At 31 December 2019 the solvency ratio was 109.4%. The unrealised gains have been assessed and, even with a 40% decrease, there is still sufficient headroom in terms of Scheme solvency. Therefore, the overall solvency is still in a strong position and the Scheme will continue to monitor this in the upcoming period.

Furthermore, the Scheme's exposure to market risk in note 9 was based on the Scheme's best estimate of possible rate changes. Given the continued uncertainty on the impact and duration of the COVID-19 pandemic, the analyses may not be indicative of the possible outcome in the foreseeable future.

Accounts receivables: Allowance for impairment losses of healthcare receivables

Allowance for impairment losses as at 31 December 2019 have been based on incurred events at balance sheet date in accordance with IAS 39. Given that the disruptions to the economy only occurred in March 2020, the amount recognised as at 31 December 2019 remains unchanged. The Scheme is a restricted membership medical scheme. The majority of the accounts receivables relates to contribution receivables. Given that the employer is an essential service provider and these balances are by nature short-term, a minimal impact is expected on the allowance of impairment losses relating to COVID-19.

11. SUBSEQUENT EVENTS

Personal medical savings account liability

The carrying amount of members' personal medical savings accounts is deemed to be equal to their fair values, amount payable on demand. The liability is classified as current liability and therefore the amount recognised remains unchanged.

Outstanding risk claims provision

Provision for outstanding risk claims, as disclosed in note 5, is an estimate of the ultimate costs of settling all claims incurred that have occurred before the end of the reporting period, but have not been reported to the Scheme. Given the fact that the risk claims provision as at 31 December 2019 relates to 2019 and prior claims, the claims provision remains unchanged.

The impact on the Scheme's performance since 31 December 2019 is as follows;

Contribution income

It is unclear how the restrictions imposed by the Government during the national lockdown period will impact member contribution collections. The Scheme is a restricted membership medical scheme. The employer has been identified as an essential service provider and therefore a minimal impact is expected on the contribution income relating to COVID-19.

Investment returns

Since the beginning of 2020, due to the volatility of the global and local markets, the Scheme has been experiencing unrealised losses on investments. The impact of COVID-19 on the Scheme's investments is still highly uncertain and therefore very difficult to predict. The South African Reserve Bank (Sarb) has cut interest rates in March and in April by 100 basis points. A shock to the global and local markets continues to be experienced. Investment returns earned for the three-month period ended 31 March 2020 was R6.1 million (31 March 2019: R5.7 million). The performance of the Scheme's investment portfolio continues to be monitored by the Scheme's Asset Managers, as well as the Scheme's Investment Consultant.

Scheme's claims

The Scheme's claims impact relating to COVID-19 is still uncertain and therefore very difficult to predict. The estimated impact of COVID-19 on claims has been based on the best available statistical data available at the date of approval of the financial statements and derived from the international experience of COVID-19. The current estimates of the infection rates and hospital admission rates change frequently and are subject to a significant degree of uncertainty. The potential cost of treatment, especially in-hospital treatment for patients with serious symptoms, is also unknown at this stage. Potential cost scenarios were based on a range of prevalence rates and assumed costs of treatment both of which are highly uncertain. The sensitivity testing performed to ascertain the impact on the Scheme's solvency position and members' funds indicated that the Scheme's going-concern status is not at risk.

Conclusion

Based on the current situation and the Scheme's analysis of the information on hand, the Board is comfortable about the Scheme's ability to operate under the going-concern basis for the next financial year. The Scheme continues to monitor the disruptions on member contributions due to the national lockdown, it continues to be operational and remains focused to serving its members. The Scheme will work closely with the Council for Medical Schemes to obtain any developing guidelines.

12. NON-COMPLIANCE MATTERS

Contraventions for which exemption was applied for from the Council for Medical Schemes

12.1 CONTRAVENTION OF SECTION 35(8)(A) AND SECTION 35(8)(C)

Nature and impact

The Scheme holds an indirect investment in the participating employer via investments placed with Allan Gray. This is in contravention of Section 35(8)(a) of the Act, as the Scheme is not allowed to hold investments in any participating employer.

The Scheme holds an indirect investment in Momentum Metropolitan Holdings Limited, an investment placed with Allan Gray and Visio. This is in contravention of Section 35(8)(c) of the Act, as the Scheme is not allowed to hold shares in the holding company of an administrator.

Causes of the non-compliance

The holding of these shares in the portfolio is incidental, as the Scheme does not have control over the underlying assets in the portfolio.

Corrective course of action

The Scheme has applied for an exemption renewal on 27 March 2019 from the Council for Medical Scheme and received confirmation of an exemption on 11 December 2019. The exemption will be valid until 30 November 2022, subject to renewal.

12.2 NON-COMPLIANCE WITH SECTION 8(H) OF THE ACT – INVESTMENT IN DERIVATIVES

Nature and impact

The Scheme has an investment in Stanlib Brandywine, which has an underlying investment in the Stanlib Global Bond Fund. The Stanlib Global Bond Fund makes use of foreign derivatives as part of its investment strategy. This is in contravention of Section 8(h) of the Act, as well as Regulation 30.

Causes of the non-compliance

The holding of these derivatives in the portfolio is incidental, as the Scheme does not have control over the underlying assets in the portfolio.

Corrective course of action

The Scheme applied for an exemption renewal during July 2018, with confirmation of receipt of application during February 2019. The Scheme has followed up with the Council for Medical Schemes regularly regarding the formal exemption approval.

Contraventions for which exemption was not applied for from the Council for Medical Schemes

12.3 CONTRAVENTION OF SECTION 26(7) OF THE MEDICAL SCHEMES ACT

Nature and impact

In terms of Section 26(7) of the Act, contributions should be received at the latest three days after it is due. An amount of R2,241,777 (2018: R302,660) was still outstanding by more than three days after it was due, as at 31 December 2019. The amount was received on 7 January 2020.

Causes for the failure

The non-compliance relates to one instance during the year when contributions were received more than three days after the due date.

12. NON-COMPLIANCE MATTERS (CONTINUED)

12.3 CONTRAVENTION OF SECTION 26(7) OF THE MEDICAL SCHEMES ACT (CONTINUED)

Corrective action

Management continues to communicate to employer groups to emphasise the importance of prompt payment.

12.4 NON-COMPLIANCE WITH SECTION 33(2) OF THE ACT – OPTION OPERATING LOSS

Nature and impact

In terms of Section 33(2) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance and will be financially sound. As at the 31 December 2019, the Plus Option was in a net healthcare deficit position, thereby contravening Section 33(2) of the Act. The net healthcare deficit amounted to R5,650,303 (2018 deficit: R16,441,480).

Causes of the non-compliance

The Scheme experienced higher-than-anticipated high-cost claims during the year, which resulted in claims incurred being greater than the budgeted amount.

Corrective course of action

The Trustees continue to monitor the performance of the Scheme and they will make appropriate interventions during the annual benefit review process. As the solvency ratio at reporting date was 109.4% (2018: 114.4%), the Board of Trustees is comfortable that the Scheme will remain compliant with the minimum solvency ratio prescribed by the Medical Schemes Act.

13. COMPLETE SET OF AUDITED FINANCIAL STATEMENTS

A complete set of audited financial statements can be obtained from the following address:

Registered office address:

Pick n Pay Medical Scheme
Parc du Cap
7 Mispel Road
Bellville
7530

PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

14. SURPLUS PER BENEFIT OPTION

2019	Plus R	Primary R	Total R
Risk contribution income	268,864,739	13,129,201	281,993,940
Relevant healthcare expenditure	(252,129,817)	(6,888,898)	(259,018,715)
Net claims incurred	(255,677,748)	(8,251,226)	(263,928,974)
Risk claims incurred	(248,258,717)	(7,487,256)	(255,745,973)
Accredited managed healthcare services	(7,813,671)	(763,970)	(8,577,641)
Third-party claim recoveries	394,640	-	394,640
Net income on risk transfer arrangement	3,547,931	1,362,328	4,910,259
Risk transfer arrangement premiums paid	(13,938,207)	(3,412,282)	(17,350,489)
Recoveries from risk transfer arrangements	17,486,138	4,774,610	22,260,748
Gross healthcare result	16,734,922	6,240,303	22,975,225
Administration fees and other operative expenses	(22,358,966)	(2,187,230)	(24,546,196)
Net impairment losses on healthcare receivables	(26,259)	-	(26,259)
Net healthcare result	(5,650,303)	4,053,073	(1,597,230)
Other income	30,990,435	2,912,259	33,902,694
Capitalised interest and dividends	22,439,448	2,182,781	24,622,229
Realised gains on financial assets	1,817,052	172,779	1,989,831
Unrealised gain on financial assets	6,617,649	556,699	7,174,348
Other income	116,286	-	116,286
Other expenditure	(7,257,453)	(14,824)	(7,272,277)
Asset management fees	(212,106)	(14,824)	(226,930)
Interest paid on personal medical savings account	(7,045,347)	-	(7,045,347)
Net profit for the year	<u>18,082,679</u>	<u>6,950,508</u>	<u>25,033,187</u>

PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

14. SURPLUS PER BENEFIT OPTION (CONTINUED)

2018	Plus R	Primary R	Total R
Risk contribution income	248,474,648	7,667,801	256,142,449
Relevant healthcare expenditure	(243,228,844)	(4,726,304)	(247,955,148)
Net claims incurred	(246,521,494)	(4,260,701)	(250,782,195)
Risk claims incurred	(240,013,968)	(3,821,713)	(243,835,681)
Accredited managed healthcare services	(7,532,317)	(438,988)	(7,971,305)
Third-party claim recoveries	1,024,791	-	1,024,791
Net income/(expense) on risk transfer arrangement	3,292,650	(465,603)	2,827,047
Risk transfer arrangement premiums paid	(13,079,611)	(1,823,781)	(14,903,392)
Recoveries from risk transfer arrangements	16,372,261	1,358,178	17,730,439
Gross healthcare result	5,245,804	2,941,497	8,187,301
Administration fees and other operative expenses	(21,254,397)	(1,248,899)	(22,503,296)
Net impairment losses on healthcare receivables	(432,887)	-	(432,887)
Net healthcare result	(16,441,480)	1,692,598	(14,748,882)
Other income	5,750,160	465,938	6,216,098
Investment income	26,310,605	2,182,624	28,493,229
Realised gain on available-for-sale investments	4,339,285	359,970	4,699,255
Unrealised loss on financial assets	(25,033,214)	(2,076,656)	(27,109,870)
Other income	133,484	-	133,484
Other expenditure	(7,379,178)	(50,649)	(7,429,827)
Asset management fees	(804,800)	(50,649)	(855,449)
Interest paid on personal medical savings account	(6,574,378)	-	(6,574,378)
Net (loss)/profit for the year	(18,070,498)	2,107,887	(15,962,611)

All items of income or expenditure that do not relate directly to a specific option are allocated across all options on a proportional basis with reference to membership of each option.

Pick n Play

Medical scheme