PICK N PAY MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2022

PICK N PAY MEDICAL SCHEME

FINANCIAL STATEMENTS
for the year ended 31 December 2022
Registration number: 1563

The reports and statements set out below comprise the financial statements presented to the members:

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PICK N PAY MEDICAL SCHEME

FINANCIAL STATEMENTS
for the year ended 31 December 2022

BOARD OF TRUSTEES RESPONSIBILITY STATEMENT

The trustees are responsible for the preparation and fair presentation of the financial statements of Pick n Pay Medical Scheme, comprising the statement of financial position as at 31 December 2022, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes in accordance with the International Financial Reporting Standards (IFRS), and the requirements of the Medical Schemes Act of South Africa. In addition, the Trustees are responsible for preparing the report of the Board of Trustees.

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

The trustees have made an assessment of the 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 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, as identified in the first paragraph, were approved by the Board of Trustees on 2 June 2023 and signed on its behalf by:

.....	.....	.....
V Pierce	G Lea	P Botha
VICE-CHAIRPERSON	TRUSTEE	PRINCIPAL OFFICER

2 June 2023

PICK N PAY MEDICAL SCHEME

FINANCIAL STATEMENTS
for the year ended 31 December 2022

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

Pick n Pay Medical Scheme (the 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 of 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 three alternate trustee 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.

.....	.....	.....
V Pierce	G Lea	P Botha
VICE-CHAIRPERSON	TRUSTEE	PRINCIPAL OFFICER

2 June 2023

PICK N PAY MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2022

The Board of Trustees hereby presents its report for the year ended 31 December 2022.

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	Trustee	8 July 2021*	
V Pierce	Vice-Chairperson	8 July 2021*	
J Dube	Trustee	8 July 2021*	
P Gerber	Trustee	8 July 2021*	

* Re-appointed

Member Elected		**Date of appointment**	**Date of resignation**
H de Light	Chairperson	8 July 2021*	
R Johnson	Trustee	8 July 2021*	
L Andrews	Trustee	8 July 2021*	
R Faasen	Trustee	8 July 2021*	
M Mannion	Alternate Trustee	8 July 2021	
V de Nobrega	Alternate Trustee	8 July 2021	31 January 2023
R Sattar	Alternate Trustee	8 July 2021*	

* Re-elected

1.2 PRINCIPAL OFFICER

A Visser	Retired 31 March 2022
P Botha	Appointed 1 April 2022

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

P O Box 23087
Claremont
7735

1.3 REGISTERED OFFICE ADDRESS AND POSTAL ADDRESS

Pick n Pay Medical Scheme
Parc Du Cap
Mispel Road
Bellville
7530

P O Box 4313
Cape Town
8000

1.4 MEDICAL SCHEME ADMINISTRATOR

Momentum Health Solutions (Pty) Ltd
268 West Avenue
Centurion
Gauteng
157

P O Box 7400
Centurion
0046

PICK N PAY MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)
for the year ended 31 December 2022

1.5 INVESTMENT MANAGERS

Allan Gray Propriety Limited
1 Silo Square
V&A Waterfront
Cape Town
8001

P O Box 51318
V&A Waterfront
Cape Town
8002

Ninety One Plc
100 Grayston Drive
Sandown
Sandton
2196

P O Box 785700
Sandton
2146

Coronation Fund Managers Ltd
7th Floor Montclare Place
Cnr Campground & Main Roads
Claremont
7708

P O Box 44684
Claremont
7735

Abax Investments (Pty) Ltd
2nd floor Colinton House
The Oval
1 Oakdale Road
Newlands
7700

P. Suite 255, P O Box X1005
Claremont
7735

Visio Capital Management (Pty) Ltd
The Place, Ground Floor, South Wing
1 Sandton Drive
Sandton
2146

P O Box 3625
Tygervalley
7536

Old Mutual Investment Group (Pty) Ltd
Mutual park, Jan Smuts Drive
Pinelands
Cape Town
7405

P O Box 66
Pinelands
Cape Town
South Africa
7405

1.6 AUDITOR

Ernst & Young Inc.
3rd Floor, Waterway House
3 Dock Road
V&A Waterfront
Cape Town
8001
Date of resignation: 30 June 2022

P O Box 656
Cape Town
8000

BDO South Africa Incorporated
6th Floor, 123 Hertzog Boulevard
Foreshore
Cape Town
8001
Date of appointment: 1 September 2022

P O Box 2275
Cape Town
8000
South Africa

1.7 ACTUARIAL CONSULTANTS

NMG Consultants and Actuaries (Pty) Ltd
NMG House
411 Main Avenue
Randburg
2125

P O 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

PICK N PAY MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)
for the year ended 31 December 2022

1.9 CAPITATION PROVIDERS

Centre for Diabetes & Endocrinology (Pty) Ltd
81 Central Street
Houghton
2198

P O Box 2900
Saxonwold
2132

ER24 EMS (Pty) Ltd
Manor 1, Cambridge Manor
Cnr. Witkoppen and Stonehaven Streets
Paulshof
2056

P O Box 242
Paulshof
2056

Momentum Health Solutions (Pty) Ltd
268 West Avenue
Centurion
Gauteng
157

P O Box 7400
Centurion
0046

1.10 MANAGED CARE SERVICES PROVIDERS

Momentum Health Solutions (Pty) Ltd
268 West Avenue
Centurion
Gauteng
157

P O Box 7400
Centurion
0046

MediKredit Integrated Healthcare Solutions (Pty) Ltd
(A subsidiary of Universal Health (Pty) Ltd)
10 Kikuyu Road
Sandton
Sunninghill
2157

P O Box 692
Johannesburg
2193

Private Health Administrators (Pty) Ltd
70 Buckingham Terrace
Pharos House Building
Westville
Durban
3630

P O 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.

The Scheme ring-fenced the investment of the personal medical savings account funds in a separate Ninety One Plc Stable Money Fund. Actual interest earned on the investment has been allocated on a member level.

PICK N PAY MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)
for the year ended 31 December 2022

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.

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 of trustees and independent members, 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 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 is greater than expected.

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

PICK N PAY MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)
for the year ended 31 December 2022

5. REVIEW OF OPERATIONS

5.1 OPERATIONAL STATISTICS

The results of the Scheme's operations for the year under review at 31 December 2022 are set out in the Financial Statements, and the Trustees believe that no further clarification is required.

2022	Plus	Primary	Total
Number of members at year end	5,966	948	6,914
Average number of members for the year	6,874	587	7,461
Number of beneficiaries at year end	12,840	1,535	14,375
Average number of beneficiaries for the year	12,950	1,428	14,379
Proportion of dependants at year end	1.2	0.6	1.1
Average age of beneficiaries	32.0	28.8	31.7
Pensioner ratio	5.2%	0.7%	4.7%
Average contributions net of savings per member per month	R 3,689	R 1,771	R 3,444
Average contributions net of savings per beneficiary per month	R 1,719	R 1,092	R 1,657
Average claims net of savings incurred per member per month	R 3,490	R 951	R 3,166
Average claims net of savings incurred per beneficiary per month	R 1,626	R 587	R 1,523
Average administration costs per member per month	R 249	R 177	R 240
Average managed care: Managed services per member per month	R 123	R 114	R 122
Average members' funds per member at year end	n/a	n/a	R 77,566
Relevant healthcare expenditure as a percentage of net contributions	106.6%	88.5%	105.4%
Relevant healthcare expenditure per average beneficiary per month	R 1,832	R 967	R 1,746
Managed care: Management services as a percentage of net contributions	3.3%	6.5%	3.5%
Non-healthcare expenses as a percentage of gross contributions	6.7%	17.4%	7.3%
Non-healthcare expenditure per beneficiary per month	R 144	R 189	R 148
Administration fees paid to the Administrator	R 17,153,839	R 2,725,752	R 19,879,591
Average return on investments and cash	n/a	n/a	4.5%

2021	Plus	Primary	Total
Number of members at year end	6,126	837	6,963
Average number of members for the year	6,218	791	7,008
Number of beneficiaries at year end	13,208	1,346	14,554
Average number of beneficiaries for the year	13,352	1,265	14,617
Proportion of dependants at year end	1.2	0.6	1.1
Average age of beneficiaries	31.5	28.6	31.3
Pensioner ratio	4.8%	0.7%	4.4%
Average contributions net of savings per member per month	R 3,580	R 1,825	R 3,381
Average contributions net of savings per beneficiary per month	R 1,667	R 1,142	R 1,621
Average claims net of savings incurred per member per month	R 2,941	R 450	R 2,660
Average claims net of savings incurred per beneficiary per month	R 1,369	R 281	R 1,275
Average administration costs per member per month	R 298	R 298	R 298
Average managed care: Managed services per member per month	R 120	R 110	R 119
Average members' funds per member at year end	n/a	n/a	R 75,133
Relevant healthcare expenditure as a percentage of net contributions	94.8%	56.9%	92.5%
Relevant healthcare expenditure per average beneficiary per month	R 1,581	R 647	R 1,500
Managed care: Management services as a percentage of net contributions	3.3%	6.1%	3.5%
Non-healthcare expenses as a percentage of gross contributions	6.7%	16.4%	7.3%
Non-healthcare expenditure per beneficiary per month	R 139	R 186	R 143
Administration fees paid to the Administrator	R 17,126,960	R 2,340,070	R 19,467,030
Average return on investments and cash	n/a	n/a	12.2%

PICK N PAY MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)
for the year ended 31 December 2022

5.2 ACCUMULATED FUNDS RATIO	2022 R	2021 R
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per statement of financial position	538,966,405	558,371,015
Less: Cumulative unrealised gains on investments at fair value through profit or loss	(76,694,943)	(98,666,080)
Accumulated funds per Regulation 29 of the Act	462,271,462	459,704,935
Gross contributions	352,276,638	350,827,689
Accumulated funds ratio: Accumulated funds/gross contributions X 100 %	131.2%	131.0%

5.3 OUTSTANDING CLAIMS

Movements in the outstanding claims provision are set out in note 8 to the 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

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 16 of the financial statements for related party disclosures and note 13.1 of this report.

7. FIDELITY COVER

The Scheme has a fidelity policy, placed through Marsh (Pty) Ltd, with Guardrisk Insurance Company (The insurer). The Scheme has a cover of R120 million in aggregate (2021: R120 Million) (Limited to R60 million on any one claim - 2021: R60 million) and extends to trustees, independent committee members and 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.

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 7 members of which two are members of the Board of Trustees, three are independent members, and two are alternate independent members to ensure continuity.

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

07 April 2022;
21 July 2022; and
13 October 2022.

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 Scheme went through a tender process due to the resignation of EY Inc. in June 2022, which was due to no fault of the Scheme. After completion of the tender process, BDO Inc. was appointed as the external auditor in September 2022.

PICK N PAY MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)
for the year ended 31 December 2022

9.1 RISK AND AUDIT COMMITTEE (continued)

The members of the committee are:

Name	Designation	Date of Appointment	Date of Resignation
L Clayton	Independent Member / Chairperson	8 July 2021*	
R Johnson	Member-Elected Trustee	8 July 2021*	
G Lea	Employer-Appointed Trustee	8 July 2021*	
A Rolstone	Independent Member	25 February 2021	
D Rae	Alternate Independent Member	18 August 2022	
R Mazema	Alternate Independent Member	18 August 2022	
A Visser	Independent Member	1 April 2022	
V Pierce	By Invitation (Vice-Chairperson of the Board of Trustees)	8 July 2021*	
H de Light	By Invitation (Chairperson of the Board of Trustees)	8 July 2021*	

* Re-appointed

P Botha attends in her capacity as 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:

10 February 2022;
12 May 2022;
4 August 2022; and
10 November 2022.

The members of the committee are:

Name	Designation	Date of Appointment	Date of Resignation
G Lea	Employer-Appointed Trustee / Chairperson	8 July 2021*	
R Johnson	Member-Elected Trustee	8 July 2021*	
P Gerber	Employer-Appointed Trustee	8 July 2021*	
V Pierce	Employer-Appointed Trustee	8 July 2021*	
R Sattar	Alternate Trustee	8 July 2021*	
A Visser	Independent Member	1 September 2019	31 March 2022
P Botha	Independent Member	1 September 2019	
H de Light	Invitee	8 July 2021*	

* 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:

3 February 2022;
5 May 2022;
11 August 2022; and
20 October 2022.

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	8 July 2021*	
H de Light	Member-elected Trustee	8 July 2021*	
R Sattar	Alternate Trustee	8 July 2021*	
A Visser	Independent Member	1 September 2019	31 March 2022
P Botha	Independent Member	1 September 2019	

* Re-elected

PICK N PAY MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)
for the year ended 31 December 2022

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 the following seven occasions during the course of the year:

31 March 2022;	11 August 2022;	20 October 2022; and
5 May 2022;	29 September 2022;	24 November 2022
2 June 2022;		

Ex Gratia requests received outside of these dates were discussed and approved via round robin.

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	8 July 2021*	
V Pierce	Employer-Appointed Trustee	8 July 2021*	
J Dube	Employer-Appointed Trustee	8 July 2021*	
R Sattar	Alternate Trustee	8 July 2021*	
A Visser	Independent Member	1 September 2019	31 March 2022
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		Investment Committee		Clinical Committee		Ex-Gratia Committee	
	A	B	A	B	A	B	A	B	A	B
Ms H de Light	5	4	-	-	-	-	4	4	7	6
Mr V Pierce	5	5	-	-	4	4	4	4	7	6
Mr G Lea	5	5	3	2	4	3	-	-	-	-
Mr J Dube	5	4	-	-	-	-	-	-	7	3
Mr R Johnson	5	4	3	3	4	4	-	-	-	-
Ms R Sattar	5	5	-	-	4	2	4	0	7	5
Ms P Gerber	5	5	-	-	4	3	-	-	-	-
Ms L Andrews	5	5	-	-	-	-	-	-	-	-
Mr L Clayton	-	-	3	3	-	-	-	-	-	-
Ms M Mannion	5	5	-	-	-	-	-	-	-	-
Ms V de Nobrega	5	3	-	-	-	-	-	-	-	-
Mr R Faasen	5	4	-	-	-	-	-	-	-	-
Dr M Bailey	5	5	-	-	-	-	4	4	7	7
Ms A Rolstone	-	-	3	3	-	-	-	-	-	-
Mr D Rae	-	-	1	1	-	-	-	-	-	-
Mr R Mazema	-	-	1	1	-	-	-	-	-	-
Mr A Visser	** 1	** 1	** 3	** 3	1	1	1	1	1	1
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
* - P Botha attends in her capacity as Principal Officer; appointed on 1 April 2022
** - A Visser attends in his capacity as Principal Officer; retired on 31 March 2022

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 on the Plus option 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 for the Primary Option at a fixed rate per beneficiary per month.

12. SUBSEQUENT EVENTS

There have been no events that have occurred between the end of the accounting period and the date of the approval of these annual financial statements that the Trustees consider should be brought to the attention of the members of the Scheme.

PICK N PAY MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)
for the year ended 31 December 2022

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, Coronation, Visio and Old Mutual. 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, via investment placed with Allan Gray, Coronation and Old Mutual. 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 Council for Medical Schemes granted a previous exemption which expired on 30 November 2022. The Scheme applied for exemption renewal on 26 October 2022 from the Council for Medical Schemes and is still waiting on a response. Follow up communication in this regard has been sent to CMS.

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

13.2 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 3 days after it is due. An amount of R29 006 (2021: R178 199) was still outstanding by more than 3 days after it was due, as at 31 December 2022.

Causes of the non-compliance

The non-compliance relates to several instances during the year when contributions, due to member discrepancies, were received more than 3 days after the due date.

Corrective course of action

Management continues to communicate to all concerned parties, including individual members to emphasise the importance of prompt payment.

13.3 Non compliance with S33(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 2022, both the Plus and Primary options was in a net healthcare loss position, thereby contravening Section 33(2) of the Act, the net healthcare loss amounted to R 40 988 565. The Plus option had a net healthcare loss of R39 887 708 as at 31 December 2022 (2021 loss: R 8 854 321). The Primary option had a net healthcare loss of R1 100 857 as at 31 December 2022 (2021 surplus: R 4 618 187).

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 131.2% (2021: 131.0%), the Board of Trustees are comfortable that the Scheme would remain compliant with the minimum solvency ratio prescribed by the Medical Schemes Act.

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6th Floor,
119 – 123 Hertzog Boulevard
Foreshore
Cape Town, 8001
PO Box 2275
Cape Town, 8000

Independent Auditor's Report

To the members of

Pick n Pay Medical Scheme

Report on the Financial Statements

Opinion

We have audited the financial statements of Pick n Pay Medical Scheme (the Scheme), set out on pages 15 to 47, which comprise the statement of financial position as at 31 December 2022, and the statement comprehensive income, the statement of changes in funds and reserves and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Pick n Pay Medical Scheme as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

Basis for Opinion

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

Key Audit Matters

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

1. Outstanding Risk Claims Provision (IBNR) (Note 8)	
Key Audit Matter	***Audit Response***
The Outstanding Risk Claims Provision of R9 215 093 at year-end, as described in Note 8 to the financial statements is a provision recognised for the estimated costs of healthcare benefits that have been incurred prior to year-end but were only reported to the Scheme after year-end. In accordance with the Scheme rules, members have four months from the service date to submit the related claims, failing which, the claims are considered stale. The Scheme's historical experience has been that most claims are received within two months after year end.	Our audit procedures included, amongst others: • We performed an assessment of the appropriateness and timely recognition of costs and the provision against the requirements of International Accounting Standards ("IAS") 37 *Provisions, Contingent Liabilities and Contingent Assets* and International Financial Reporting Standards ("IFRS") 4 *Insurance Contracts*; • We have performed a retrospective assessment of the prior year's provision against actual payments made. • We have tested the design and implementation of the key controls in relation to the provision. • To assess the reasonability of the provision raised, we

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Registration number: 1995/002310/21
Practice number: 905526
VAT number: 4910148685

Chief Executive Officer: LD Mokoena

A full list of all company directors is available on www.bdo.co.za

The method used by the Scheme to estimate outstanding claims involves the use of historical claims development information and assumes that the historical claims development pattern will occur into the future. There is however no certainty that claims will follow the same patterns as the historical claims' development information. We considered this to be a matter of most significance to the audit due to the degree of estimation uncertainty involved and the management judgement applied in the assessment of the projected claims pattern. A potential change in the projected claims pattern can cause a material change to the amount of IBNR provision amount.	performed the following procedures: – We identified the claims received subsequent to year-end relating to service dates occurring in the 2022 financial year; – We assessed management's key assumptions around claims run-off patterns against actual payments subsequent to year end, our industry knowledge and experience; and – We compared the calculation of run-off triangles against current and historical claims development patterns in order to assess the reasonability thereof. • We recalculated the accuracy of the sensitivity analyses disclosed in note 8 to the financial statements; and • We evaluated the adequacy of the disclosure relating to the IBNR provision against the requirements of IFRS and relevant industry guidance.

Other Information

The Scheme's Board of Trustees is responsible for the other information. The other information comprises The Board of Trustee's Responsibility Statement, the Statement of Corporate Governance by the Board of Trustees and the Report of the Board of Trustees. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Scheme for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Non-compliance with the Medical Schemes Act of South Africa

As required by the Council for Medical Schemes, we report that there are material instances of non-compliance with the requirements of the Medical Schemes Act of South Africa, that have come to our attention during the course of our audit:

1. Non-compliance with S33(2) of the Act - Option operating loss – refer note 24. to the financial statements.

Audit tenure
As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that BDO South Africa Incorporated has been the auditor of Pick n Pay Medical Scheme for one year. BDO South Africa Incorporated is auditing the scheme for the first time.

The engagement partner, **Mrs Terri Weston**, has been responsible for Pick n Pay Medical Scheme's audit for one year.

BDO South Africa Incorporated
Registered Auditors

BDO South Africa Inc.
BDO South Africa Inc. (Jun 2, 2023 14:05 GMT+2)

T Weston
Director
Registered Auditor

2 June 2023

119 – 123 Hertzog Boulevard
Foreshore
Cape Town
8001

PICK N PAY MEDICAL SCHEME

STATEMENT OF FINANCIAL POSITION
as at 31 December 2022

	Notes	2022 R	2021 R
ASSETS			
Non-current assets		406,402,962	336,555,692
Financial assets at fair value through profit or loss	2	406,402,962	336,555,692
Current assets		257,826,013	346,083,975
Insurance and other receivables	3	2,446,696	1,055,686
Cash and cash equivalents		255,379,317	345,028,289
Scheme cash and cash equivalents	4	155,227,881	245,802,671
Personal medical savings account investment	6	100,151,436	99,225,618
Total assets		664,228,975	682,639,667
FUNDS AND LIABILITIES			
Members' funds		538,966,405	558,371,015
Accumulated funds		538,966,405	558,371,015
Current liabilities		125,262,570	124,268,652
Personal medical savings account liability	5	99,040,854	97,567,252
Insurance and financial liabilities	7	17,006,623	16,079,986
Outstanding risk claims provision	8	9,215,093	10,621,414
Total funds and liabilities		664,228,975	682,639,667

PICK N PAY MEDICAL SCHEME

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2022

	Notes	2022 R	2021 R
Risk contribution income	9	285,815,271	284,316,162
Relevant healthcare expenditure		(301,250,701)	(263,099,184)
Net claims incurred		(307,922,492)	(268,676,789)
Risk claims incurred	10	(297,830,720)	(258,746,618)
Accredited managed healthcare services	11	(10,091,772)	(9,983,144)
Third party claim recoveries		-	52,973
Net income on risk transfer arrangements	10	6,671,791	5,577,605
Risk transfer arrangements premiums paid		(20,100,234)	(18,956,490)
Recoveries from risk transfer arrangements		26,772,025	24,534,095
Gross healthcare result		(15,435,430)	21,216,978
Administration fees and other operative expenses	12	(25,491,377)	(25,035,114)
Movement in provision for impairment on insurance receivables	13	(61,758)	(417,998)
Net healthcare result		(40,988,565)	(4,236,134)
Other income		28,796,754	75,675,295
Interest and dividend income	14	23,738,439	18,549,542
Realised income on financial assets	14	26,677,975	25,173,755
Unrealised (loss)/income on financial assets	14	(21,971,137)	31,951,998
Sundry income	15	351,477	-
Other expenditure		(7,212,799)	(5,721,718)
Asset management fees		(1,286,589)	(1,191,460)
Interest paid on personal medical savings account	5	(5,926,210)	(4,530,258)
Net (loss)/income for the year		(19,404,610)	65,717,443
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		(19,404,610)	65,717,443

PICK N PAY MEDICAL SCHEME

STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2022

	R Members' funds and Accumulated funds
Balance as at 1 January 2021	492,653,572
Net income for the year	65,717,443
Balance as at 31 December 2021	558,371,015
Net loss for the year	(19,404,610)
Balance as at 31 December 2022	538,966,405

PICK N PAY MEDICAL SCHEME

STATEMENT OF CASH FLOWS
for the year ended 31 December 2022

	Notes	2022 R	2021 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from members and providers		355,094,800	363,824,631
Cash receipts from members - contributions		350,924,985	351,652,118
Cash receipts from members and providers - others		4,169,815	12,172,513
Cash paid to providers, employees and members		*(398,170,176)*	*(370,610,676)*
Cash paid to providers, employees and members - claims		(367,800,459)	(336,489,402)
Cash paid to providers, employees and members - non-healthcare expenditure		(25,491,377)	(25,035,114)
Cash paid to members - savings plan refunds	5	(4,878,340)	(9,086,160)
Cash utilised in operations		**(43,075,376)**	**(6,786,045)**
Interest paid	5	(5,926,210)	(4,530,258)
Net cash utilised in operating activities		**(49,001,586)**	**(11,316,303)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	2	(118,769,784)	(40,000,000)
Proceeds on disposal of investments	2	60,269,784	40,000,000
Interest received *		12,745,705	10,030,462
Dividend received *		5,106,909	3,963,768
Net cash (utilised in)/generated from investing activities		**(40,647,386)**	**13,994,230**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(89,648,972)**	**2,677,927**
Cash and cash equivalents at the beginning of the year		345,028,289	342,350,362
Cash and cash equivalents at the end of the year	4 & 6	**255,379,317**	**345,028,289**

* Interest and dividends received for the prior year has been reclassified from cash flows from operating activities to cash flows from investing activities. Please refer to note 1.16 for additional disclosure.

In Circular 52 of 2021, CMS requires schemes in terms of section 37(2) to report on investment income received on scheme investments as investing cash flows, and not as operating cash flows, in their Statement of Cash Flows in their financial statements of the year ended 31 December 2021, onwards.

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2022

1. PRINCIPAL ACCOUNTING POLICIES

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

Statement of compliance

The financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and in accordance with the requirements of the Medical Schemes Act, No. 131 of 1998. In addition the 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 statement of comprehensive income for Medical Schemes in South Africa.

Going Concern
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.

1.1 Basis of preparation

The 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 basis except for financial assets and liabilities which are measured at fair value through profit or loss or through other comprehensive income which are measured at fair value as noted below in 1.2. The presentation and functional currency is the rand, rounded to the nearest rand.

Standards issued and effective in the current year

Amendments to IFRS 3: Definition of a Business:
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Amendments to IAS 1 and IAS 8: Definition of Material:
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting Scheme.'

The amendments to the definition of material is not expected to have a significant impact on the Scheme's financial statements.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Scheme will not be affected by these amendments on the date of transition.

Standards and interpretations applicable to the Scheme that are not yet effective
The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Scheme's financial statements are disclosed below. The Scheme intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Adoption of IFRS 17 Insurance contracts:

IFRS 17- Insurance contracts is effective for Pick n Pay Medical Scheme (the Scheme) annual financial year beginning on 1 January 2023. This standard brings about significant changes to the accounting for insurance contracts. These changes are expected to have a material impact on the Scheme's financial statements. In accordance with the transition requirements outlined in IFRS 17, management will apply IFRS 17 retrospectively, meaning that the 2023 financial statements will be presented as if IFRS 17 has always applied. The date of initial application of IFRS 17 will therefore be 1 January 2022, being the start of the comparative period. Management has not yet quantified all of the impacts of applying the requirements of IFRS 17.
Accordingly, IFRS 17 has not being accounted for in the 2022 annual financial statements, as it is only effective from 1 January 2023.

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

1.1 Basis of preparation (continued)

Adoption of IFRS 17 Insurance contracts (continued)
However, management is internally driving the implementation of IFRS 17. This comprises of actuarial support, processes support, finance, reporting and technical accounting to-date, an IFRS 17 gap analysis was completed which considered all the various products offered and is currently in the process of finalising the overall impact of implementing IFRS 17. This implementation plan considers the findings from the IFRS 17 gap analysis and includes the detailed analysis to assess the impact of applying IFRS 17 to each of the products considered. Upon completion of implementing IFRS 17, management would have:

- Identified, recognised, and measured each group of insurance contracts as if IFRS 17 had always applied.
- Identified, recognised, and measured assets for insurance acquisition cash flows as if IFRS 17 had always applied.
- Derecognised any existing balances that would not exist had IFRS 17 always applied.
- Recognised any resulting net difference in equity.

The Scheme will restate comparative information for IFRS 17.

a) Insurance contracts classification

The Scheme offers two options; Plus option with a savings component and the Primary option which is a low cost capitated option. The Plus option has capitation agreements with Centre for Diabetes & Endocrinology (Pty) Ltd and ER24 EMS (Pty) Ltd to transfer significant insurance risk. The Primary option has capitation agreements with Momentum Health Solutions (Pty) Ltd and ER24 EMS (Pty) Ltd to transfer insurance risk. The Scheme is taking on significant insurance risk through the claims being higher than the premiums paid by members and has therefore entered into these capitation agreements to transfer the insurance risk.

b) Insurance contracts accounting treatment

i. Separating components from insurance contracts

The Scheme assesses its insurance and reinsurance products to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17. After separating any distinct components, the Scheme applies IFRS 17 to all remaining components of the (host) insurance contract. The assessment of whether any insurance and reinsurance contracts held by the Scheme, comprises any distinct components that may require separation has been completed. The unit of account applied as part of the IFRS 17 implementation is considered at the overall contract level and there are no distinct components that require separation.

The Scheme has assessed that there are no distinct comments.

ii. Level of aggregation

IFRS 17 requires a Scheme to determine the level of aggregation for applying its requirements. The level of aggregation for the Scheme is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. The Scheme has evaluated whether a series of contracts need to be treated together as one unit based on reasonable and supportable information, or whether a single contract contains components that need to be separated and treated as if they were stand-alone contracts. As such, what is treated as a contract for accounting purposes may differ from what is considered as a contract for other purposes (i.e., legal or management). IFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart.

The Scheme will apply a full retrospective approach for transition to IFRS 17. The portfolios are further divided by year of issue and profitability for recognition and measurement purposes. Hence, within each year of issue, portfolios of contracts are divided into three groups, as follows:

- A group of contracts that are onerous at initial recognition (if any)
- A group of contracts that, at initial recognition, have no significant possibility of becoming onerous subsequently (if any)
- A group of the remaining contracts in the portfolio (if any).

Judgement has been applied to how the Scheme determined the unit of account for the measurement of its insurance contracts. The Scheme will apply the exemption to grouping as allowed by paragraph 20 of IFRS17: law or regulation specifically constrains the Scheme's ability to set different prices or levels of benefits for members with different characteristics. The Medical Schemes Act prohibits the Scheme to set different prices for its members. As such, the Scheme does not group contracts in various profitability groupings. Therefore the Scheme considers the group at a portfolio level with no further groupings. Management has assessed their portfolio as the Scheme as a whole due to the holistic pricing methodologies and risk management strategy that manages the risk on a Scheme level.

This is demonstrated by the following:

- Hospital claims are managed on a Scheme level.
- Chronic conditions are managed on a Scheme level, i.e. no matter the option the member will have access to the chronic condition management benefit.
- Pricing and benefit option changes are determined at a Scheme level to manage member migration between different benefit options to ensure each option is sustainable
- Risk (utilisation and concentration) is managed holistically.

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

1.1 Basis of preparation (continued)

Adoption of IFRS 17 Insurance contracts (continued)

iii. Recognition

The Scheme recognises groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts
- The date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date
- For a group of onerous contracts, if facts and circumstances indicate that the group is onerous.

The Scheme recognises a group of reinsurance contracts held it has entered into from the earlier of the following:

- The beginning of the coverage period of the group of reinsurance contracts held; and
- The date the Scheme recognises an onerous group of underlying insurance contracts if the Scheme entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

The Scheme adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

iv. Contract boundary

The Scheme reviews its pricing and benefit options annually and therefore it has the practical ability to reprice its insurance contracts on an annual basis. The contract boundary for Pick n Pay Medical Scheme is therefore twelve months.

v. Measurement

Premium Allocation Approach (PAA):

As the contract duration of the Scheme is 12 months, it makes the Scheme eligible to apply the Premium Allocation Approach (PAA) which is a simplified valuation model.

On initial recognition of each group of non-life insurance contracts, the carrying amount of the liability for the remaining coverage is measured at the premiums received on initial recognition. The Scheme may elect to recognise insurance acquisition cash flows as expenses when they are incurred.

Subsequently, the carrying amount of the liability for remaining coverage is increased by any further premiums received and decreased by the amount recognised as insurance revenue for services provided. The Scheme expects that the time between providing each part of the services and the related premium due date will be no more than a year. The Scheme is not required to adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk if, at initial recognition, the Scheme expects that the time between providing each part of the services and the related premium due date is no more than a year.

If at any time before and during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Scheme will recognise a loss in profit or loss and increase the liability for remaining coverage to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage. The fulfilment cash flows will be discounted (at current rates) if the liability for incurred claims is also discounted.

The Scheme will recognise the liability for incurred claims of a group of contracts at the amount of the fulfilment cash flows relating to incurred claims. The future cash flows will be discounted (at current rates) unless they are expected to be paid in one year or less from the date the claims are incurred.

Risk adjustment to the Outstanding Claims Provision

The first year-end date for which the new IFRS 17 accounting standard will apply is 31 December 2023. This means that the IFRS 17 standard will have to be applied in a similar way for the comparative year-end date within the 2023 financial reporting, which is 31 December 2022.

The measurement of the IFRS 17 insurance contract liability requires a risk adjustment for non-financial risk, which is intended to inform users of the annual financial statements regarding the amount charged by the entity for the uncertainty in amount and timing of cash flows.

The risk adjustment as at 31 December 2022 applicable to the Scheme is 4.51% of the estimated Outstanding Risk Claims Provision, or R 392 748. This result is based on a confidence interval equating to the 75th percentile of a stochastic simulated distribution of the estimated Outstanding Claims Provision using the Bootstrap Model.

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

1.1 Basis of preparation (continued)

Adoption of IFRS 17 (continued)

Presentation and disclosure
The Scheme shall present separately in the statement of financial position the carrying amount of portfolios of:
- Insurance assets and liabilities
- Insurance receivables and payables will be presented on a net basis
- Amounts recognised in the statement(s) of comprehensive income are disaggregated into:
  an insurance service result comprising:
- insurance revenue
- insurance service expenses
- insurance finance income or expenses

Derecogntion:
The Scheme derecognises a contract when the rights and obligations relating to the contract are extinguished, i.e. expired, discharged, or cancelled. If a contract modification results in derecognition, a new contract is recognised on the modified terms. If a contract modification does not result in derecognition, then the Scheme treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

Transition
The Scheme will apply the fully retrospective approach.

The Scheme shall adopt the standards, interpretations or amendments on their effective date.

Critical judgements

The preparation of the 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 judgements refer to notes 8.

CRITICAL ACCOUNTING JUDGEMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY
In the process of applying the Scheme's accounting policies, management has made the following judgements that has the most significant effect on the amounts recognised in the financial statements.

Outstanding risk claims provision
A key assumption concerning the future that has a significant risk of causing a material adjustment to the carrying amounts of liabilities is used to determine the provision for outstanding claims.

When arriving at this provision it is assumed that the reporting and settlement trend of claims incurred but not reported will be similar to that of the previous financial period. The provision is calculated based on percentages derived from the previous financial period and is adjusted, if necessary, as the claims are reported and settled.

Although the assumption is considered critical, post statement of financial position settlements against the provision have been monitored to ensure reasonability of the original provision. Refer to note 1.4 for more information.

Provision for impairment
The Scheme applies judgement in assessing the provision for impairment relating to insurance received. Refer to note 1.2 for more information.

1.2 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement:
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The Scheme classifies its financial instruments at fair value through profit or loss (FVTPL) and financial instruments at amortised cost.

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2022

1.2 Financial instruments (continued)

Financial assets (continued)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Scheme's business model for managing them. With the exception of non-insurance trade receivables that do not contain a significant financing component or for which the Scheme has applied the practical expedient, the Scheme may initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Non-insurance trade receivables that do not contain a significant financing component or for which the Scheme has applied the practical expedient are measured at the transaction price.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Scheme commits to purchase or sell the asset.

Subsequent measurement

Financial assets at amortised cost
Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Scheme's financial assets at amortised cost includes non-insurance trade receivables and cash and cash equivalents in the statement of financial position.

Financial assets at fair value
Financial assets at fair value are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Scheme had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on listed equity investments are recognised as investment income in the statement of profit or loss when the right of payment has been established.

The Scheme' financial instruments at fair value through profit or loss consists of investments in the statement of financial position.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Scheme's statement of financial position) when:

- The rights to receive cash flows from the asset have expired or
- The Scheme has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and the Scheme has transferred substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Scheme has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Scheme continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Scheme also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Scheme has retained.

Impairment
For insurance receivables, the Scheme assesses at each reporting date whether there is any objective evidence that a financial asset carried at amortised cost or a group of financial assets, excluding financial assets at fair value through profit or loss, is impaired.

The Scheme applies a simplified approach in calculating expected credit losses (ECLs) for non-insurance receivables.

Therefore, the Scheme does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Scheme has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of the financial assets.

If, in a subsequent year, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

1.2 Financial instruments (continued)

Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.
The Scheme's financial liabilities consist of trade and other payables, personal medical savings account liability and the outstanding claims provision.

Subsequent measurement
Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Scheme has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost

This is the category most relevant to the Scheme. These are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

The Scheme’s financial liabilities at amortised cost include trade and other payables, medical savings liability, and the outstanding claims provision.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

1.3 Personal medical savings account trust liability

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

The deposit component of the insurance contracts has been unbundled since the Scheme can measure the deposit component separately. The deposit component is recognised in accordance with IFRS 9 and is initially measured at fair value and subsequently at amortised cost using the effective interest method. The insurance component is recognised in accordance with IFRS 4.

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

Advances on savings contributions are funded from the Scheme’s funds and the Scheme will assess the advances for impairment.

The personal medical savings accounts are invested (on behalf of members) in the Investec Stable Money Fund. These monies are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

1.4 Provisions

Provisions are recognised when the Scheme has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation and, a reliable estimate can be made as to the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

Outstanding claims provision

Outstanding risk claims comprise provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred but not yet reported at the reporting date. Outstanding risk claims are determined as accurately as possible on the basis of a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the nature and number of members according to gender and age, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim. Estimated co-payments and payments from personal medical savings accounts are deducted in calculating the outstanding risk claims provision.

The Scheme does not discount its provision for outstanding claims, since the effect of the time value of money is not considered material.

1.5 Insurance receivables

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

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the EIR method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss.

Insurance receivables are derecognised when the derecognition criteria for financial assets, have been met.

1.6 Risk contribution income

Contributions on member insurance contracts are accounted for monthly when their collection in terms of the insurance contract is reasonably certain. Risk contributions represent the gross contributions per the registered rules after the unbundling of savings contributions. The earned portion of risk contributions received is recognised as revenue. Net contributions are shown before the deduction of any costs.

1.7 Relevant healthcare expenditure

Relevant healthcare expenditure consists of risk claims incurred, accredited managed healthcare services and net income or expense from risk transfer arrangements.

1.8 Claims incurred

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

Claims incurred includes claims submitted and accrued for services rendered during the year, net of discounts, third party recoveries and recoveries from members for co-payments and personal medical savings accounts.

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

1.9 Accredited managed healthcare services

These expenses represent expenditure and the amounts paid or payable to third party providers, related parties and other third parties for managing the utilisation, costs and quality of healthcare services to the Scheme.

1.10 Reimbursements from the Road Accident Scheme (RAF)

The Scheme grants assistance to its members in defraying expenditure incurred in connection with rendering of any relevant health service. Such expenditure may be in connection with a claim that is also made to the RAF, administered in terms of the Road Accident Scheme Act No. 56 of 1996. If the member is reimbursed by the RAF, they are obliged contractually to cede that payment to the Scheme to the extent that they have already been compensated.

A reimbursement from the RAF is a possible asset that arises from a claim submitted to the RAF and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Scheme. If an inflow of economic benefits has become probable, the Scheme discloses a contingent asset. The contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. Amounts received in respect of reimbursements from the RAF are recognised as part of net claims incurred in the statement of comprehensive income.

1.11 Investment income

Investment income comprises interest on cash and cash equivalents, interest and dividend income from market linked policies.

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

Dividend income from investments is recognised when the right to receive payment is established. Right to receive payment is established on the ex-dividend date. Distributions from collective investment schemes are accounted for when received.

1.12 Risk transfer arrangements

These are contracts entered into by the Scheme with third party service providers. Under these contracts, the Scheme is compensated for losses/claims through the provision of services to members by the service providers. Refer to note 11 of the Report of the Board of Trustees for more information.

Contracts entered into by the Scheme with third party service providers under which the Scheme is compensated for losses/claims (through the provision of services to members) on one or more contracts issued by the Scheme and that meet the classification requirements of insurance contracts are classified as risk transfer arrangements (reinsurance contracts). Only contracts that give rise to a significant transfer of insurance risk are accounted for as risk transfer arrangements. Risk transfer premiums/fees are recognised as an expense over the indemnity period on a straight-line basis. Where applicable, a portion of risk transfer premiums/fees is treated as pre-payments.

Risk transfer claims and benefits reimbursed are presented in the statement of comprehensive income and statement of financial position on a gross basis.

Assets relating to risk transfer arrangements include balances due under risk transfer arrangements for outstanding risk claims provisions and claims reported not yet paid. Amounts recoverable under risk transfer arrangements are estimated in a manner consistent with the risk claims provisions, claims reported not yet paid, and settled claims associated with the risk transfer arrangement taking into account the terms of the contract. The amounts recoverable under such contracts are recognised in the same year as the related claim.

Amounts recoverable under risk transfer arrangements are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Scheme may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Scheme will receive under the risk transfer arrangement.

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

1.14 Taxation

The Scheme is registered under the Medical Schemes Act 131 of 1998. As a result it falls within the definition of a benefit Scheme as defined in Section 1 of the Income Tax Act, and therefore the receipts and accruals of the Scheme are exempt from taxation under Section 10(1)(d)(ii) of the Income Tax Act. The Scheme is exempt from dividends tax on its dividend income by virtue of section 64F(1)(f) of the Income Tax Act.

1.13 Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.
The principal or the most advantageous market must be accessible to the Scheme. Fair values are determined according to the following hierarchy based on the requirements of IFRS 13: 'Fair Value Measurement':

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as closing prices) or indirectly (i.e. derived from closing prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

1.14 Allocation of income and expenditure to benefit options

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

1.15 Structured entities

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

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

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

The change in fair value of each fund is included in the statement of comprehensive income in realised and unrealised gains and losses on financial assets held at fair value through profit or loss.

1.16 PRIOR PERIOD RECLASSIFICATION

In Circular 52 of 2021, CMS requires schemes in terms of section 37(2) to report on investment income received on scheme investments as investing cash flows, and not as operating cash flows, in their Statement of Cash Flows in their financial statements of the year ended 31 December 2021, onwards.

A reclassification adjustment was posted in the current year for the prior year to reclassify interest and dividends received previously disclosed under cash flows from operating activities to cash flows from investing activities in the Statement of Cash Flows.

The net effect of the reclassification on the financial statements is nil.

The reclassification resulted in the adjustments as follows:	**2021**
Statement of Cash Flows	**R**
Cash flow from operating activities	(13,994,230)
Cash flow from investing activities	13,994,230
	-

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

		2022	2021
2.	**FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS**	**R**	**R**
	Fair value at the beginning of the year	336,555,692	275,887,162
	Additions	118,769,784	40,000,000
	Interest and dividends	7,238,263	4,146,133
	Disposals	(60,269,784)	(40,000,000)
	Realised income on financial assets at fair value through profit or loss	4,116,711	22,098,994
	Unrealised income on revaluation of financial assets at fair value through profit or loss	816,309	35,085,805
	Investment manager fees	(824,013)	(662,402)
	Fair value at the end of the year	406,402,962	336,555,692
	The investments included above represent investments in:		
	Allan Gray Equity Fund	56,097,466	50,583,846
	Sesfikile Property Fund	-	16,444,320
	Abax Prescient Equity Fund	78,244,924	74,744,400
	Stanlib Brandywine	-	37,702,690
	Visio Capital Fund	40,410,526	41,244,208
	Coronation Strategic Bond Fund	65,566,445	74,549,139
	Old Mutual Investment Group	43,089,740	41,287,089
	Ninety One Diversified Income	122,993,861	-
		406,402,962	336,555,692

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

3.	**INSURANCE AND OTHER RECEIVABLES**		
	Insurance receivables	2,238,163	909,239
	Contributions receivable	1,669,565	411,915
	Recoveries from members and service providers receivable	464,790	414,862
	Personal medical savings account advances (note 5)	103,808	82,462
	Risk transfer arrangements		
	Share of outstanding claims provision (see below)	256,421	303,015
	Less: Provision for impairment	(304,281)	(453,346)
	Balance at the beginning of the year	(453,346)	(187,416)
	Additional impairment during the year	(61,758)	(417,998)
	Amounts written off during the year	245,297	184,773
	Amounts recovered during the year	(34,474)	(32,705)
	Financial assets	244,633	285,018
	Interest receivable	244,633	285,018
	Financial assets	11,760	11,760
	Prepaid expenses	11,760	11,760
		2,446,696	1,055,686
	Analysis of movements in the share of outstanding claims provision		
	Adjustments for the current year	256,421	303,015
	Balance at end of the year	256,421	303,015

The carrying amounts of insurance and other receivables approximate their fair values due to the short term maturities of these assets. The Scheme has assessed the IFRS 9 expected credit losses impact on other receivables and concludes that there is no material impact.

4.	**SCHEME CASH AND CASH EQUIVALENTS**		
	Money market investments	126,655,359	216,038,424
	Current account	28,572,522	29,764,247
		155,227,881	245,802,671

The effective interest rate on cash and cash equivalents was 5.04% (2021: 3.94%). These deposits have an average maturity of less than 30 days. Cash and cash equivalents are carried at fair value. The total interest earned on the current account and money market instruments was R10 573 964 (2021: R9 858 217), which is included in investment income in the statement of comprehensive income.

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

5. PERSONAL MEDICAL SAVINGS ACCOUNT LIABILITY - MANAGED BY THE SCHEME ON BEHALF OF ITS MEMBERS

	2022 R	2021 R
Balance of personal medical savings account liability at the beginning of the year	97,567,252	100,486,580
Less: Prior year advances on personal medical savings account	(82,462)	(74,127)
Adjusted balance on personal medical savings account at the beginning of the year	97,484,790	100,412,453
Add:		
Savings account contributions received or receivable (note 9)	66,461,367	66,511,527
Interest earned on monies invested	5,926,210	4,530,258
Less:		
Claims paid out of savings (note 10)	(66,056,981)	(64,883,288)
Refunds on death or resignation in terms of Regulation 10(4)	(4,878,340)	(9,086,160)
Add:		
Advance on personal medical savings account (note 3)	103,808	82,462
Balance on personal medical savings account at the end of the year	99,040,854	97,567,252

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 2022 but not yet reported will amount to R2 551 076 (2021: R2 853 534) (note 8).

As from December 2012 the Scheme had 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 the 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 6. The difference between the investment and the liability is due to timing differences.

6. PERSONAL MEDICAL SAVINGS ACCOUNT INVESTMENT - MANAGED BY THE SCHEME ON BEHALF OF ITS MEMBERS

	2022 R	2021 R
Ninety One Plc. Stable Money Fund	100,151,436	99,225,618

The personal medical savings account monies were invested on behalf of the members in a market linked policy. The effective interest rate on the personal medical savings accounts was 5.28% (2021: 4.87%). The total interest earned was R5 926 210 (2021: R4 530 258). 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.

7. INSURANCE AND FINANCIAL LIABILITIES

	2022 R	2021 R
Insurance liabilities		
Amounts owing to members and providers	16,099,296	15,097,496
Total liabilities arising from insurance contracts	16,099,296	15,097,496
Financial liabilities		
Accrued expenses	350,727	654,395
Accrual for audit fees	556,600	328,095
	907,327	982,490
Total insurance and financial liabilities	17,006,623	16,079,986

The carrying amounts of financial liabilities approximate their fair values due to the short-term maturities of these liabilities.

8. OUTSTANDING RISK CLAIMS PROVISION

	Covered by risk transfer arrangements	Not covered by risk transfer arrangements
2022	**R**	**R**
Outstanding claims provision	256,421	8,958,672
	256,421	8,958,672
Analysis of movements in outstanding claims		
Balance at beginning of year	303,015	10,318,399
Payments in respect of prior year	(303,015)	(9,019,950)
Over provision in respect of prior year	-	1,298,449
Adjustment for current year	256,421	7,660,223
Balance at end of year	256,421	8,958,672
Total outstanding claims provision at end of year		9,215,093
2021		
Outstanding claims provision	303,015	10,318,399
	303,015	10,318,399
Analysis of movements in outstanding claims		
Balance at beginning of year	156,622	9,482,150
Payments in respect of prior year	(156,622)	(9,173,114)
Under provision in respect of prior year	-	309,036
Adjustment for current year	303,015	10,009,363
Balance at end of year	303,015	10,318,399
Total outstanding claims provision at end of year		10,621,414

Analysis of outstanding risk claims provision	**2022** **R**	**2021** **R**
Estimated gross claims	11,509,748	13,171,933
Less: Estimated recoveries from personal medical savings account (note 5)	(2,551,076)	(2,853,534)
IBNR covered by risk transfer arrangements	256,421	303,015
	9,215,093	10,621,414

The provision for outstanding claims (also referred to as claims incurred but not reported (IBNR)) are 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.

8. OUTSTANDING RISK CLAIMS PROVISION (continued)

Assumptions and sensitivities (continued)

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. 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 composition of membership and their dependents; 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; and
- Utilisation escalation incorporates the impact of HIV/AIDS.

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

	2022 %	2021 %
Claims outstanding for services rendered in:		
- December	9.0	8.0
- November	4.0	4.0
- October	3.0	3.0
- September	1.5	1.5
- 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:

	2022 R	2021 R
Effect of a 1% increase	1,102,599	1,454,207
Effect of a 2% increase	2,228,538	2,399,884
Effect of a 3% increase	3,378,492	3,365,672

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

9. RISK CONTRIBUTION INCOME

	2022 R	2021 R
Gross contributions per registered rules	352,276,638	350,827,689
Less: Personal medical savings contributions received (note 5)	(66,461,367)	(66,511,527)
Risk contribution income per statement of comprehensive income	285,815,271	284,316,162

The savings contributions are received by the Scheme in terms of Regulation 10(1) and the Scheme's registered Rules. Refer to note 5 to the financial statements for more detail on how these monies were utilised.

10. RISK CLAIMS INCURRED

	2022 R	2021 R
Claims incurred excluding claims incurred in respect of risk transfer arrangements		
Current year claims per registered rules	328,157,004	288,777,412
Movement in outstanding risk claims provision	8,958,672	10,318,399
Over provision in the prior year (note 8)	1,298,449	309,036
Adjustment for current year (note 8)	7,660,223	10,009,363
	337,115,676	299,095,811
Less:		
Claims paid from personal medical savings accounts (note 5)	(66,056,981)	(64,883,288)
Risk claims incurred	271,058,695	234,212,523

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

10. RISK CLAIMS INCURRED (continued)	2022 R	2021 R
Total claims incurred excluding risk transfer arrangements	271,058,695	234,212,523
Claims incurred in respect of risk transfer arrangements		
Current year claims	26,772,025	24,534,095
Claims incurred per the statement of comprehensive income	297,830,720	258,746,618
Net income on risk transfer arrangements		
Premiums paid	(20,100,234)	(18,956,490)
Recoveries received	26,772,025	24,534,095
Net income on risk transfer arrangements	6,671,791	5,577,605

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 on the Plus option of the Scheme with Diabetes at a fixed monthly rate per beneficiary on the program.

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 5 for a breakdown of the movement in these balances.

11. ACCREDITED MANAGED HEALTHCARE SERVICES	2022 R	2021 R
Managed care services	8,860,445	8,798,036
HIV & AIDS programme	1,231,327	1,185,108
	10,091,772	9,983,144

12. ADMINISTRATION FEES AND OTHER OPERATIVE EXPENSES	2022 R	2021 R
Administrator's fees	19,879,591	19,467,030
Audit fees - audit services	690,000	503,700
Bank charges	21,679	21,894
BHF Levies	91,360	17,035
Compensation		
- Chairperson	12,000	-
- Medical advisor	945,036	908,642
Consulting fees	3,306,288	3,465,978
Council for Medical Schemes levies	307,725	314,559
Fidelity guarantee insurance premium	70,561	70,000
Printing	66,110	138,835
Sundry expense	702	644
Telephone and postage	100,325	126,797
	25,491,377	25,035,114

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

		2022 R	2021 R
13.	**PROVISION FOR IMPAIRMENT**		
	Contributions that are not collectable	94,003	69,382
	Movement in provision for impairment	94,003	69,382
	Members' and service providers' portions that are not recoverable	(190,235)	(520,085)
	Movement in provision for impairment	55,062	(335,312)
	Amounts written off	(245,297)	(184,773)
	Previous impairment losses recovered	34,474	32,705
		(61,758)	(417,998)
14.	**INVESTMENT INCOME**		
	Interest and dividend income		
	Interest on financial assets at fair value through profit or loss	180,266	182,365
	Dividends on financial assets at fair value through profit or loss	5,106,909	3,963,768
	Interest on cash and cash equivalents	12,525,054	9,873,151
	Interest on personal medical savings account investment	5,926,210	4,530,258
		23,738,439	18,549,542
	Realised income on financial assets		
	Realised income on investments at fair value through profit or loss	4,135,341	22,098,994
	Realised income on investments at amortised cost	22,542,634	3,074,761
		26,677,975	25,173,755
	Unrealised (loss)/income on financial assets		
	Unrealised income on investments at fair value through profit or loss	797,678	35,085,804
	Unrealised loss on investments at amortised cost	(22,768,815)	(3,133,806)
		(21,971,137)	31,951,998
15.	**SUNDRY INCOME**		
	Write back of prescribed balances	351,477	-

16. RELATED PARTY DISCLOSURES

Parties with significant influence over the Scheme

Momentum Health Solutions (Pty) Ltd (MHS) 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, managed care 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.

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

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

16. RELATED PARTY DISCLOSURES (continued)

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 and members of committees.

Close family members include family members of the Board of Trustees, 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.

	2022	2021
Statement of comprehensive income	**R**	**R**
Gross contributions received (key management personnel)	912,283	915,609
Claims incurred (key management personnel)	1,955,887	1,475,071
Interest paid on personal medical savings account (key management personnel)	12,433	10,545
Compensation (key management personnel)		
- Chairperson	12,000	-
- Medical advisor	945,036	908,642
Administrator's fee (MHS)	19,879,591	19,467,030
Risk transfer arrangement fee and Managed Care fee (MHS)	7,883,485	6,671,978
Consulting fee (NMG)	3,149,298	3,075,496
Investment consulting fee (WTW)	156,990	160,483
Statement of financial position		
Personal medical savings account liability (key management personnel)	226,331	258,148
Investment consulting fee (WTW) (included in accrued expenses)	-	38,180
Reimbursement of postage/printing cost payable to MHS (included in accrued expenses)	-	25,736
NMG Actuaries	-	256,291

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 Chairperson and Medical Advisor in terms of the contract with the Scheme. The Trustees and Principal Officer are not remunerated by the Scheme.

16. RELATED PARTY DISCLOSURES (continued)

The terms and conditions of the related party transactions and transactions with those whom have significant influence over the Scheme were as follows: (continued)

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 which 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 which 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 months notice. The outstanding balance bears no interest and is due within 30 days.

17. CONTINGENT ASSET

At 31 December 2022 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 R6 419 444 (2021: R5 522 588).

18. CONTINGENT LIABILITIES

There were no potential liabilities contingent on the outcome of litigation, claims, guarantees, suretyships or alike at 31 December 2022 (2021: nil).

19. FINANCIAL RISK MANAGEMENT

The following summary represents the fair value and carrying amounts of the different financial instruments held by the Scheme which are exposed to the financial risks discussed below:

2022

Financial assets and liabilities by category for:	Financial assets at fair value through profit or loss	Financial liabilities at amortised cost	Insurance receivables and payables	Financial assets at amortised cost
	R	R	R	R
Financial assets at fair value through profit or loss	406,402,962	-	-	-
Scheme cash and cash equivalents	-	-	-	155,227,881
Insurance and other receivables	-	-	2,691,329	244,633
Personal medical savings account investment	100,151,436	-	-	-
Personal medical savings account liability	-	(99,040,854)	-	-
Insurance and financial liabilities	-	(907,327)	(16,099,296)	-
Outstanding risk claims provision	-	-	(9,215,093)	-

2021

Financial assets and liabilities by category for:	Financial assets at fair value through profit or loss	Financial liabilities at amortised cost	Insurance receivables and payables	Financial assets at amortised cost
	R	R	R	R
Financial assets at fair value through profit or loss	336,555,692	-	-	-
Scheme cash and cash equivalents	-	-	-	245,802,671
Insurance and other receivables	-	-	770,668	285,018
Personal medical savings account investment	99,225,618	-	-	-
Personal medical savings account liability	-	(97,567,252)	-	-
Insurance and financial liabilities	-	(982,490)	(15,097,496)	-
Outstanding risk claims provision	-	-	(10,621,414)	-

The Scheme is exposed to a range of financial risks through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk is that the Scheme's investment performance is not sufficient to maintain the solvency ratio. The most significant components of this financial risk are interest rate risk, equity price risk and credit risk.

These risks arise from open positions in interest rate and equity risk products, both of which are exposed to general and specific market movements.

Financial risk management strategy and policy

The Board of Trustees appointed an investment committee to focus on the Scheme's investment strategy, risk management and asset allocation. Risk management and investment decisions are made under the guidance and policies approved by the Board of Trustees. The risk and audit and investment committees assist the board with the formulating of these policies.

The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments that the Scheme holds to meet its obligations to its members.

The Scheme appointed professional asset management companies with proven track records to manage the Scheme's investment portfolios.

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

19. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Scheme will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Prudent liquidity risk management implies maintaining sufficient cash, marketable securities and the availability of funding through holding liquid cash positions with various financial institutions to ensure that the Scheme has the ability to fund its day-to-day operations.

At year end 38.59% (2021: 50.62%) of the Scheme's assets were invested in cash and cash equivalent investments to ensure that the Scheme can meet its short-term commitments. The table below illustrates the liquidity position of the Scheme:

At 31 December 2022

Category	*Less than 1 month*	*Between 2 and 3 months*	*Between 4 months and 1 year*	*Total*
	R	*R*	*R*	*R*
Personal medical savings account liability	2,437,175	113,901	96,489,778	99,040,854
Insurance liabilities	16,099,296	-	-	16,099,296
Financial liabilities	350,727	200,100	356,500	907,327
Outstanding risk claims provision	6,068,955	2,171,153	974,985	9,215,093
	24,956,153	2,485,154	97,821,263	125,262,570
Cash and cash equivalents	255,379,317	-	-	255,379,317
Excess liquidity				130,116,747

At 31 December 2021

Category	*Less than 1 month*	*Between 2 and 3 months*	*Between 3 months and 1 year*	*Total*
	R	*R*	*R*	*R*
Personal medical savings account liability	2,713,569	139,965	94,713,718	97,567,252
Insurance liabilities	15,097,496	-	-	15,097,496
Financial liabilities	654,412	302,841	25,237	982,490
Outstanding risk claims provision	5,196,983	3,172,358	2,252,073	10,621,414
	23,662,460	3,615,164	96,991,028	124,268,652
Cash and cash equivalents	345,028,289	-	-	345,028,289
Excess liquidity				220,759,637

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

19. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

The Scheme has exposure to credit risk, which is the risk that a member or counterparty to a financial instrument will be unable to pay amounts in full when due. Key areas where the Scheme is exposed to credit risk are:

- amounts due from members and service providers; and
- interest due from financial institutions.

The table below illustrates the quality of the Scheme's receivables in order to assess credit risk:

At 31 December 2022

Class	*Not past due*	*Past due, not impaired*	*Past due and impaired*	*Total*
	R	*R*	*R*	*R*
Insurance receivables	1,802,259	131,623	304,281	2,238,163
Interest receivable	244,633	-	-	244,633

At 31 December 2021

Class	*Not past due*	*Past due, not impaired*	*Past due and impaired*	*Total*
	R	*R*	*R*	*R*
Insurance receivables	341,759	114,134	453,346	909,239
Interest receivable	285,018	-	-	285,018

As at 31 December 2022 there were receivables that were past due and not yet impaired. There are no indications at the reporting date that these debtors will not meet their payment obligations.

Management information reported to the Scheme includes details of provisions for impairment on receivables, and subsequent write-offs. The table below provides an analysis of the receivables that were impaired:

Class	**2022**	**2021**
	R	**R**
Insurance receivables	304,281	453,346

The amounts presented in the statement of financial position are net of impairment of receivables, estimated by the Scheme's management based on prior experience and the current economic environment.

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

19. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The credit risk on cash and cash equivalents is limited because the counterparties are reputable financial institutions with high credit ratings.

Fitch Long Term Rating

Financial institution	2022 R	2021 R	Credit Rating 2022	Credit Rating 2021
Ninety One Plc.	148,881,609	241,605,985	AA+	AA+
Coronation Fund Managers	77,925,186	73,658,057	AA+	AA+
	226,806,795	315,264,042		

Fitch National Rating

Financial institution	2022 R	2021 R	Credit Rating 2022	Credit Rating 2021
Standard Bank	28,572,522	29,764,247	AA+	AA+

The Scheme has no significant concentration of credit risk, with exposure spread over a large number of counterparties and members.

The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset, where a legally enforceable right exists.

Market risk

The Scheme has exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market price risk comprises three types of risks: currency risk, interest rate risk and price risk which includes equity price risk.

Currency risk

The Scheme operate in South Africa and therefore its cash flows are denominated in South African Rands. The Scheme had exposure to currency risk due to its investment in Stanlib Asset Management (Brandywine) which is denominated in US dollars This investment account was closed in September 2022.
The table below indicates the Scheme's exposure to currency risk:

	2022 R	2021 R
Stanlib Brandywine (account closed in September 2022)	-	37,702,690

The Stanlib Brandywine account was closed during the year and therefore there is no longer any exposure to currency risk.

Sensitivity analysis
The sensitivity analysis for currency risk illustrates how changes in the value of the Rand will affect the value of the Scheme's investments at the reporting date.

If the value of the Rand depreciates by 5 percent against foreign currencies, it will increase the value of the investment by Rnil (2021: R1 796 864), as the account was closed in September 2022. This full amount would have been recognised in the statement of comprehensive income, but would not affect the Scheme's solvency ratio.

This sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated, for example the effect of the exchange rate on interest rates.

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

19. FINANCIAL RISK MANAGEMENT (continued)

Currency risk (continued)

Interest rate risk

The Scheme is exposed to interest rate risk as it places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate placings.

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

At 31 December 2022	*Up to 1 month*	*1 - 3 months*	*3 -12 months*	*1 - 5 years*	*Total*
	R	*R*	*R*	*R*	*R*
Money market investments	226,806,795	-	-	-	226,806,795
Current account	28,572,522	-	-	-	28,572,522
	255,379,317	-	-	-	255,379,317

At 31 December 2021	*Up to 1 month*	*1 - 3 months*	*3 -12 months*	*1 - 5 years*	*Total*
	R	*R*	*R*	*R*	*R*
Money market investments	315,264,042	-	-	-	315,264,042
Current account	29,764,247	-	-	-	29,764,247
	345,028,289	-	-	-	345,028,289

Sensitivity analysis

The sensitivity analysis for interest rate risk illustrates how changes in the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

A decrease in 100 basis points in interest yields would result in a decrease of interest earned of R2 996 319 (2021: R3 306 183).

This sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated, for example the effect of interest rates on the equity market.

Management monitors the reported interest rate movements on a monthly basis.

Equity price risk

The Scheme is exposed to equity price risk as it indirectly invests funds in equities via collective investment schemes and market linked policies. The Scheme's equity portfolios are held as long-term investments, and the funds invested in these portfolios are not needed in the short or medium-term. This mitigates the risk for short-term fluctuations in the equity market. The Scheme appointed reputable asset managers with good track records in terms of performance.

Sensitivity analysis

The sensitivity analysis for equity price risk illustrates how changes in the fair value of future cash flows of a financial instrument will fluctuate because of changes in the equity market at the reporting date.

A decrease of 5% in the JSE all share index would result in a decrease in members funds of R16 576 228 (2021: R13 481 633). This full amount would be recognised in the statement of comprehensive income, but will not affect the Scheme's solvency ratio. The Scheme's sensitivity to equity prices has not changed significantly from the prior year.

This sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated, for example the effect of interest rates on the equity market.

Management monitors the equity portfolio movements on a monthly basis, and the investment committee has regular meetings to review the Scheme's strategy and asset allocation. The Scheme uses the services of independent investment advisors to assist them in this function.

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

19. FINANCIAL RISK MANAGEMENT (continued)

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

Management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amount largely due to the short-term maturities of these 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 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.

At 31 December 2022	*Level 1*	*Level 2*	*Level 3*	*Reclassification*
	R	*R*	*R*	*R*
Financial assets at fair value through profit or loss				
Collective investment schemes	-	118,655,449	-	-
Market linked policies	-	287,747,513	-	-

At 31 December 2021	*Level 1*	*Level 2*	*Level 3*	*Reclassification*
	R	*R*	*R*	*R*
Financial assets at fair value through profit or loss				
Collective investment schemes	-	170,135,618	-	-
Market linked policies	-	166,420,074	-	-

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).

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

19. FINANCIAL RISK MANAGEMENT (continued)

Fair value estimation (continued)

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.

Capital risk management

Capital adequacy risk is the risk that there may be insufficient reserves to provide for adverse variations on actual or expected future experience.

The Scheme's objective is to manage its capital in such a way that the annual contribution increase to members is minimised and as far as possible in line with the participating employer's salary increases, and to remain a going concern.

The accumulated funds ratio was 131.2% at 31 December 2022 and 131.0% at 31 December 2021. The accumulated funds ratio above compares favourably to the minimum prescribed accumulated funds ratio of 25%.

Unconsolidated investment structures

The asset managers invest the Scheme's monies in reputable funds which generate returns to the Scheme. The Scheme views these funds as unconsolidated structured entities. The Scheme monitors the performance of the funds closely to ensure the Scheme earns high returns without unnecessary exposure to risk.

The Scheme has investments in certain market linked policies and collective investment schemes as listed in the table below. The Scheme's maximum exposure to loss from its interests in the portfolios is limited to the total fair value of its investments in the portfolios.

	At 31 December 2022			At 31 December 2021		
Portfolio	**Net asset value of portfolio (NAV)**	**Fair value of Scheme investments**	**% of net assets attributable to Scheme investments**	**Net asset value of portfolio (NAV)**	**Fair value of Scheme investments**	**% of net assets attributable to Scheme investments**
Abax Investments (Pty) Ltd	6,987,875,418	78,244,924	1.12%	9,710,642,661	74,744,401	0.77%
Allan Gray Life Limited	3,642,339,905	56,097,466	1.54%	3,868,330,180	50,583,846	1.31%
Coronation Fund Managers Ltd - Strategic Bond Fund	231,129,621	65,566,445	28.37%	2,875,227,214	74,549,139	2.59%
Coronation Fund Managers Ltd - Money Market	183,209,658	77,925,186	42.53%	217,666,815	73,658,057	33.84%
Ninety One Plc - Corporate	24,324,828,170	30,042,344	0.12%	30,377,127,555	68,267,439	0.22%
Ninety One Plc - Money Market	1,675,219,648	18,686,004	1.12%	1,610,090,089	74,112,928	4.60%
Old Mutual Investment Group	904,281,188	43,089,740	4.77%	1,127,800,357	41,287,089	3.66%
Sesfikile Capital (Pty) Ltd	-	-	0.00%	3,176,924,343	16,444,320	0.52%
Stanlib Asset Management Ltd (Brandywine)	-	-	0.00%	1,452,449,314	37,702,690	2.60%
Visio Capital Management (Pty) Ltd	859,819,850	40,410,526	4.70%	993,479,391	41,244,208	4.15%

During the reporting period the Scheme had no contractual obligation nor did it have any intention to provide financial or other support to an unconsolidated structured entity.

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

20. INSURANCE RISK MANAGEMENT

NATURE AND EXTENT OF RISKS ARISING FROM INSURANCE CONTRACTS

The Scheme issues contracts that transfer insurance risk from the member to the Scheme. This section summarises these risks and the way the Scheme manages them.

Insurance risk - description of benefit option

The types of benefits offered by the Scheme in return for monthly contributions are indicated below:

- In-hospital benefits cover all cost incurred by members according to the Scheme's rules whilst they are in hospital to receive pre-authorised treatment for certain medical conditions.
- Chronic benefits cover the cost of certain prescribed medicines, consultations and procedures consumed by members for chronic conditions, such as high blood pressure, cholesterol and asthma.
- Prescribed minimum benefits are covered in full.

Risk management objectives and policies for mitigating 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 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.

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

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of

The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are by their nature random and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

Risk transfer arrangements and risk in terms of such arrangements

The Scheme reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources. The Scheme entered into risk transfer arrangements with the Centre for Diabetes & Endocrinology, ER24 and Momentum Health Solutions (for the Primary option). The risk transfer arrangements are, in-substance, the same as a non-proportional reinsurance treaty.

According to the terms of the risk transfer arrangements, the third parties agree to reimburse the ceded amount in the event the claim is paid. According to the terms of the risk transfer agreements, the suppliers provide certain benefits to all registered Scheme beneficiaries. The Scheme does, however, remain liable to its members with respect to ceded insurance if any re-insurer (or supplier) fails to meet the obligations it assumes.

When selecting a re-insurer (or supplier) the Scheme considers their relative security. The financial security or stability of the reinsurer (or supplier) is assessed from public rating information and from internal investigations.

20. INSURANCE RISK MANAGEMENT (continued)

Frequency and severity of claims

For insurance contracts issued, climatic and seasonal changes, as well as the spread of pandemics, give rise to more frequent and severe claims.

Source of uncertainty in the estimation of future claims payments

The Scheme reviews Scheme benefits on an annual basis to ensure that the necessary underwriting surplus is maintained relative to the risk exposure. It is relatively easy to assess the future claim payments since most claims are lodged soon after year-end before the four month expiration of claims period comes into effect.

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

The strategy is set out in the annual review, which specifies the benefits to be provided.

The Scheme has the right to change the terms and conditions of the contract at any time with sufficient notice, with approval of the Registrar. Management information, including contribution income and claims ratios, target market and demographic split, is reviewed monthly.

Concentration of insurance risk

The following table summarises the concentration of insurance risk, with reference to number of the beneficiaries by age group at year end.

2022

Age grouping (in years)	Number of beneficiaries
0 - 24	5,793
25 - 34	1,513
35 - 44	3,054
45 - 54	2,363
55 - 64	980
65+	672
Total	14,375

2021

Age grouping (in years)	Number of beneficiaries
0 - 24	5,864
25 - 34	1,713
35 - 44	3,097
45 - 54	2,265
55 - 64	970
65+	645
Total	14,554

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

20. INSURANCE RISK MANAGEMENT (continued)

The following table summarises the concentration of insurance risk, with reference to the carrying amount of the insurance claims incurred, by age group and in relation to the type of risk covered / benefits provided.

2022

Age grouping (in years)	Specialists	General Practitioners	Dentistry	Hospital	Optometry	Support Health Services	Medicines	Total
	R	R	R	R	R	R	R	R
00 - 25	10,385,045	1,862,740	1,358,510	19,235,111	278,078	1,891,653	1,818,657	36,829,794
26 - 35	8,679,741	1,067,667	625,848	12,856,411	154,830	2,170,573	1,429,995	26,985,065
36 - 50	26,128,459	2,557,866	1,449,849	36,544,713	496,201	7,594,630	6,594,716	81,366,434
51 - 59	15,919,829	1,086,604	557,075	22,827,303	227,644	4,615,927	5,033,667	50,268,049
60+	22,327,061	1,179,439	489,020	28,551,698	133,082	5,289,492	10,178,012	68,147,804
Total	83,440,135	7,754,316	4,480,302	120,015,236	1,289,835	21,562,275	25,055,047	263,597,146
Outstanding claims provision - write back of prior year over provision								1,298,449
Outstanding claims provision - current year								9,215,093
								274,110,688

2021

Age grouping (in years)	Specialists	General Practitioners	Dentistry	Hospital	Optometry	Support Health Services	Medicines	Total
	R	R	R	R	R	R	R	R
00 - 25	10,062,229	1,597,793	1,269,991	17,324,632	232,882	1,655,298	1,837,645	33,980,470
26 - 35	7,576,053	975,378	650,230	10,124,028	166,179	1,842,433	1,393,206	22,727,507
36 - 50	22,935,270	2,667,640	1,400,944	29,490,326	470,606	3,923,783	8,426,720	69,315,289
51 - 59	13,000,465	1,098,583	448,667	18,695,695	172,857	3,405,560	4,033,963	40,855,790
60+	18,448,035	978,108	403,382	25,695,120	108,034	3,950,284	7,977,722	57,560,685
Total	72,022,052	7,317,502	4,173,214	101,329,801	1,150,558	14,777,358	23,669,256	224,439,741
Outstanding claims provision - write back of prior year over provision								309,036
Outstanding claims provision - current year								10,621,414
								235,370,191

The strategy is reviewed annually, and specifies the benefits to be provided as well as the contributions payable.

21 SUBSEQUENT EVENTS

There have been no events that have occurred between the end of the accounting period and the date of the approval of these annual financial statements that the Trustees consider should be brought to the attention of the members of the Scheme.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

22. NON-COMPLIANCE MATTERS

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

22.1 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, Coronation, Visio and Old Mutual. 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, via investment placed with Allan Gray, Coronation and Old Mutual. 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 Council for Medical Schemes granted a previous exemption which expired on 30 November 2022. The Scheme applied for exemption renewal on 26 October 2022 from the Council for Medical Schemes and is still waiting on a response. Follow up communication in this regard has been sent to CMS.

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

22.2 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 3 days after it is due. An amount of R29 006 (2021: R178 199) was still outstanding by more than 3 days after it was due, as at 31 December 2022.

Causes of the non-compliance

The non-compliance relates to several instances during the year when contributions, due to member discrepancies, were received more than 3 days after the due date.

Corrective course of action

Management continues to communicate to all concerned parties, including individual members to emphasise the importance of prompt payment.

22.3 Non compliance with S33(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 2022, both the Plus and Primary options was in a net healthcare loss position, thereby contravening Section 33(2) of the Act, the net healthcare loss amounted to R 40 988 565. The Plus option had a net healthcare loss of R39 887 708 as at 31 December 2022 (2021 loss: R 8 854 321). The Primary option had a net healthcare loss of R1 100 857 as at 31 December 2022 (2021 surplus: R 4 618 187).

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 131.2% (2021: 131.0%), the Board of Trustees are comfortable that the Scheme would remain compliant with the minimum solvency ratio prescribed by the Medical Schemes Act.

23. FIDELITY COVER

The Scheme has a fidelity policy, placed through Marsh (Pty) Ltd, with Guardrisk Insurance Company (The insurer). The Scheme has a cover of R120 million in aggregate (2021: R120 Million) (Limited to R60 million on any one claim - 2021: R60 million) and extends to trustees, independent committee members, Principal Officer of the Scheme.

PICK N PAY MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2022

24. BREAKDOWN PER BENEFIT OPTION

2022	Plus	Primary	Total
	R	R	R
Risk contribution income	267,086,085	18,729,186	285,815,271
Relevant healthcare expenditure	(284,669,088)	(16,581,613)	(301,250,701)
Net claims incurred	(290,231,171)	(17,691,321)	(307,922,492)
Risk claims incurred	(281,347,504)	(16,483,216)	(297,830,720)
Accredited managed healthcare services	(8,883,667)	(1,208,105)	(10,091,772)
Third party claim recoveries	-	-	-
Net income on risk transfer arrangement	5,562,083	1,109,708	6,671,791
Risk transfer arrangements premiums paid	(14,836,669)	(5,263,565)	(20,100,234)
Recoveries from risk transfer arrangements	20,398,752	6,373,273	26,772,025
Gross healthcare result	(17,583,003)	2,147,573	(15,435,430)
Administration fees and other operative expenses	(22,242,947)	(3,248,430)	(25,491,377)
Net impairment losses on healthcare receivables	(61,758)	-	(61,758)
Net healthcare result	(39,887,708)	(1,100,857)	(40,988,565)
Other income	25,017,155	3,779,599	28,796,754
Interest and dividend income	20,694,654	3,043,785	23,738,439
Realised income on financial assets	23,176,581	3,501,394	26,677,975
Unrealised loss on financial assets	(19,205,557)	(2,765,580)	(21,971,137)
Sundry Income	351,477	-	351,477
Other expenditure	(7,041,849)	(170,950)	(7,212,799)
Asset management fees	(1,115,639)	(170,950)	(1,286,589)
Interest paid on personal medical savings account	(5,926,210)	-	(5,926,210)
Net (loss)/income for the year	**(21,912,402)**	**2,507,792**	**(19,404,610)**

2021	Plus	Primary	Total
	R	R	R
Risk contribution income	267,054,086	17,262,076	284,316,162
Relevant healthcare expenditure	(253,280,282)	(9,818,902)	(263,099,184)
Net claims incurred	(257,981,513)	(10,695,276)	(268,676,789)
Risk claims incurred	(249,100,246)	(9,646,372)	(258,746,618)
Accredited managed healthcare services	(8,934,240)	(1,048,904)	(9,983,144)
Third party claim recoveries	52,973	-	52,973
Net income on risk transfer arrangement	4,701,231	876,374	5,577,605
Risk transfer arrangements premiums paid	(14,469,233)	(4,487,257)	(18,956,490)
Recoveries from risk transfer arrangements	19,170,464	5,363,631	24,534,095
Gross healthcare result	13,773,804	7,443,174	21,216,978
Administration fees and other operative expenses	(22,210,127)	(2,824,987)	(25,035,114)
Net impairment income on healthcare receivables	(417,998)	-	(417,998)
Net healthcare result	(8,854,321)	4,618,187	(4,236,134)
Other income	67,126,553	8,548,742	75,675,295
Interest and dividend income	16,448,990	2,100,552	18,549,542
Realised income on financial assets	22,179,460	2,994,295	25,173,755
Unrealised income on financial assets	28,498,103	3,453,895	31,951,998
Sundry Income	-	-	-
Other expenditure	(5,584,877)	(136,841)	(5,721,718)
Asset management fees	(1,054,619)	(136,841)	(1,191,460)
Interest paid on personal medical savings account	(4,530,258)	-	(4,530,258)
Net income for the year	**52,687,355**	**13,030,088**	**65,717,443**

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.