

NOTICE IS HEREBY GIVEN THAT THE 25th ANNUAL GENERAL MEETING OF



Medical scheme

WILL BE HELD ON THURSDAY, 8 JULY 2021 AT 13:30 VIA A ZOOM CONFERENCE MEETING

The link to the virtual zoom meeting is:

<https://picknpay.zoom.us/j/92220052099?pwd=ZFRyOXptVUsycHhzMDZtWEVjWkl5UT09>

AGENDA

1. Notice convening the Annual General Meeting
2. Minutes of the Annual General Meeting held on Thursday, 9 July 2020
3. Annual Report of the Chairperson of the Board of Trustees for the year ended 31 December 2020
4. Adoption of the annual financial statements for the year ended 31 December 2020
5. To note the results of Trustee election process
6. Confirmation of the Disputes Committee
The Disputes Committee comprises:
 - Ms M Magnussen
 - Ms M Mannion
 - Mr M Marsden
7. To note the appointment of the external auditor for the ensuing year:
Ernst & Young
8. Any other business of which due notice has been given on or before Thursday, 8 July 2021

By order of the Board of Trustees

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

AMILE VISSER
PRINCIPAL OFFICER

**PICK N PAY MEDICAL SCHEME
MINUTES OF THE 24TH ANNUAL GENERAL MEETING
HELD ON THURSDAY, 9 JULY 2020 AT 13:00 VIA ZOOM CONFERENCE**

MEMBERS IN ATTENDANCE: 82 (via video conference, list of attendees – annexure 1); one proxy was received

PRESENT

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

BY INVITATION

Munaaf Roshan	Momentum Health Solutions
Dawn Theron	Momentum Health Solutions
Zaida Mohidin	Momentum Health Solutions
Annette Prins	Momentum Health Solutions
Rod Leerkamp	NMG

APOLOGIES

Badrodin Hamdulay	Momentum Health Solutions
David Liebrecht	Member

1. OPENING AND WELCOME

The Chairperson opened the meeting and welcomed all present by way of video conference.

The Chairperson confirmed that a quorum was present. The Chairperson confirmed that there were no further additions to the meeting agenda.

2. MINUTES OF THE ANNUAL GENERAL MEETING (AGM) HELD ON 11 JULY 2019

The Chairperson proposed that the minutes of the 2019 AGM, as distributed to members prior to the Annual General Meeting (AGM), be approved and adopted. This proposal was seconded by Mr Visser. The minutes were subsequently adopted and signed by the Chairperson, subject to the following amendment:

- page 3, point 5 –,Mr C Vlok to be replaced with Mr C Flack.

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

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

- the Trustees' ongoing commitment to ensuring the financial viability of the Scheme, while members continued to receive appropriate healthcare;
- the outbreak of the coronavirus in the last quarter of 2019, which had disrupted the global economic markets, and the Scheme remained uncertain of the impact it would have going forward; the Board would continue to monitor and mitigate the impact of the pandemic on the Scheme and its members in the best possible way;
- membership had increased by 201 principal members from January to December 2019;
- the Scheme's reserve ratio of 109.4% as at 31 December 2019 was much higher than the required statutory 25% and served as a safeguard to guarantee the financial viability of the Scheme for many years to come;
- the market value of the long-term investments of the Scheme at the end of April 2020 had decreased by 12.25% since December 2019; however, this would not significantly impact the solvency of the Scheme and, while it was expected that healthcare costs for the pandemic would be incurred, the Board of Trustees were of the view that the Scheme would be able to withstand the impact of the Covid-19 pandemic.

**PICK N PAY MEDICAL SCHEME
MINUTES OF THE 24TH ANNUAL GENERAL MEETING
HELD ON THURSDAY, 9 JULY 2020 AT 13:00 VIA ZOOM CONFERENCE
(CONTINUED)**

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

The Chairperson expressed appreciation and thanks to the following people/organisations:

- the Company for its continued support;
- the members for their continued efforts in pro-actively managing their health and wellness, thereby ensuring the wellbeing of the Scheme;
- our colleagues on the Board of Trustees and the various sub-committees for their commitment;
- the management and staff at Momentum Health Solutions for the efficient manner in which they managed the day-to-day affairs of the Scheme;
- the management and staff of the managed care providers – Private Health Administrators, MediKredit, ER24 and the Centre for Diabetes and Endocrinology (CED) – for the efficient manner in which they managed the various managed care programmes;
- the Medical Advisor, Dr Martin Bailey, for his dedication and sound advice;
- the Principal Officer, Mr Amile Visser, and the Deputy Principal Officer, Ms Pamela Botha, for the daily management of the Scheme and for all the assistance they provided to the members of the Scheme;
- Willis Towers Watson for their assistance in managing the Scheme's investments;
- the external auditor, Ernst & Young Inc. for the manner in which they conducted their audit;
- the Registrar of Medical Schemes and his staff for their assistance during the year; and
- all other service providers.

4. ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

The Principal Officer presented an overview of the annual financial statements for the year ended 31 December 2019.

With reference to page 8 of the AGM document, namely the annual summary of results for the year ended 31 December 2019, the Principal Officer highlighted the following salient points:

- The Investment Committee's philosophy had not changed, particularly regarding the Scheme's investment in SA equities.
- Long-term assets – the strategic asset allocation for SA equities was 42%, SA Cash 30%, SA Listed Property 5% and SA bonds 16%. The aim was to grow the investments of the Scheme by 4% per annum above inflation over the long term.
- The investment analysis on page 9 of the AGM document reflected the cash flow of the Scheme during 2019. This reflected the funds that were disinvested to pay benefits.

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

No further questions were posed or any concerns raised by members regarding the annual financial statements for the year ended 31 December 2019.

Mr Lea proposed that the annual financial statements be accepted and approved. The proposal was seconded by Mr Marsden.

5. CONFIRMATION OF THE DISPUTES COMMITTEE

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

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

The Principal Officer proposed that the confirmation of the Disputes Committee be accepted and approved. The proposal was seconded by Mr Lea.

**PICK N PAY MEDICAL SCHEME
MINUTES OF THE 24TH ANNUAL GENERAL MEETING
HELD ON THURSDAY, 9 JULY 2020 AT 13:00 VIA ZOOM CONFERENCE
(CONTINUED)**

6. APPOINTMENT OF THE EXTERNAL AUDITORS

Following a recommendation by the Audit Committee, the Chairperson confirmed that the Board of Trustees would like to renew the appointment of Ernst & Young Inc. as the external auditors to the Scheme for the financial year ending 31 December 2020.

The Chairperson proposed that Ernst & Young Inc. be appointed as the external auditors to the Scheme for the financial year ending 31 December 2020. The proposal was seconded by Mr Lea and was approved and adopted.

7. GENERAL

The Chairperson invited the members to pose any questions. The following questions and answers refer:

Enquiry/Question: Mr Marsden enquired as to whether the Scheme had considered investing in gold.

Response: Mr Lea responded that the Scheme had invested in gold some time ago, but had subsequently disinvested, for specific reasons.

Enquiry/Question: A question was posed as to the cut-off age for membership of the Scheme.

Response: The Deputy Principal Officer responded that once a member retires from Pick n Pay, their membership of Pick n Pay Medical Scheme may continue until they pass away or decide to change to another medical scheme.

Enquiry/Question: A question was posed as to the possibility of parents being allowed to remain on the Scheme in the event of the death of the principal member.

Response: The Deputy Principal Officer responded that all registered dependants may remain on the Scheme should the principal member pass away.

Enquiry/Question: Mr Marsden questioned whether a pensioner subsidy could be provided to assist pensioners with their monthly contributions.

Response: Mr Lea responded that this was a Company issue that did not pertain to the Scheme. This issue had been addressed on numerous occasions with the Employer, but the Employer had advised that it was not possible. Mr Lea reminded Mr Marsden that the Company had paid pensioners lump sums to compensate for post-retirement funding a while back.

8. CLOSURE

There being no further questions from members and no further business for discussion, the Chairperson thanked all present for their attendance and participation and declared the meeting closed at 13:52.

HELEN DE LIGHT
CHAIRPERSON

DATE

PICK N PAY MEDICAL SCHEME CHAIRPERSON'S REPORT

As Chairperson of the Board of Trustees, I have pleasure in presenting my report for the year ended 31 December 2020.

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

Covid-19 impacted us all in 2020 and there is still much uncertainty facing us as we await the rollout of the next phases of the Covid-19 vaccinations in South Africa. The Board of Trustees will continue to monitor and mitigate the impact of the outbreak on the Scheme and its members in the best possible way. We will also continue to keep you updated regarding the vaccination rollout strategy as information becomes available to us and wish to assure you that the Covid-19 vaccinations are covered from the Scheme's risk and not from members' individual spending accounts (MSAs).

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

The Scheme remains financially sound with a solvency ratio of 117.7% as at 31 December 2020. These reserves are well in excess of the legislated targets, but appropriate for the long-term sustainability of our Scheme.

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

Financial performance

During 2020 the Scheme paid out R245,071,033 in claims and claims-related expenses. A total of R24,5 million was paid from the Scheme's insured (risk) benefits in 2020 in respect of Covid-19 claims. The Trustees, as well as the managed care providers and actuaries, continue to keep a close eye on claims expenditure and costs relating to Covid-19 and vaccinations.

The reserve ratio of 117.7% is still much higher than the required statutory 25%. This is a further safeguard that will guarantee the financial viability of the Scheme during the pandemic and for many years to come.

Despite lower investment returns during the year, together with the higher-than-expected claims expenditure, the Scheme made a net surplus of R27,273,358 for the year ended 31 December 2020. The Scheme does remain financially sound and is able to meet its commitments in terms of the payment of claims.

Investments

The outbreak of the coronavirus in the last quarter of 2019, which continued throughout 2020, has disrupted the global economic markets. In making their estimates and judgements as at 31 December 2020, the Trustees have taken into consideration the global economic conditions and forecasts as at that date. The Trustees will continue to consider the potential impact of the Covid-19 outbreak on significant estimates and judgements going forward.

At year-end 55.22% of the Scheme's total assets were invested in cash, with 29.58% exposed to local equity markets. While the cash investments will be largely unaffected, the equity and bonds portion of the investments will fluctuate. The long-term investments of the Scheme are invested in equity and bonds. Although the market value of the long-term investments of the Scheme has decreased by 0.69% since December 2019, we have seen a strong rally and recovery in the first quarter of 2021. This will not significantly impact the solvency of the Scheme and, while it is expected that healthcare costs for the pandemic will be incurred, the Trustees are of the view that the Scheme is able to withstand the impacts of the Covid-19 outbreak.

More detailed information regarding the Scheme's investment performance for 2020 is provided after this report. We would, however, like to remind you of the following at this point:

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

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

Investments (continued)

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

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

Membership

Membership of the Scheme has decreased by 518 principal members from January to December 2020. This was mainly due to voluntary severance packages and retrenchments during the year. The average age of beneficiaries was 31.1 and the pensioner ratio was 4.5%.

Benefit changes

Benefit changes for 2020 included:

- Benefit limits were increased by 5.1%.
- The prosthesis benefit was amended to allow more than one prosthesis from the defined list per annum.

Contribution increases

The Trustees have tried very hard to keep contribution increases as low as possible. The Trustees need to ensure that the Scheme remains financially viable for years to come. The contributions increased by 6.5% on the Plus Option and 5% on the Primary Option for 2020. These increases were well below the average increases announced by other medical schemes.

To further ease the burden on household budgets, each year we increase the income bands to prevent those members who are currently at the top of their income bands from being pushed into a higher bracket, where they will have to pay higher contributions when the contribution increases come into effect. The income bands were increased by 6.5% on both options in 2020.

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

Despite the impact of Covid-19, the Board was still able to increase benefit limits by 4,3% for 2021, which we hope will benefit the majority of the members of the Scheme.

A moment of appreciation

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

- the Company for its continued support
- our colleagues on the Board of Trustees and the various sub-committees for their commitment to leadership
- the management and staff at Momentum Health Solutions for the efficient manner in which they have managed the day-to-day affairs of the Scheme
- the management and staff of our managed care providers – Private Health Administrators, MediKredit, ER24 Emergency Medical Services and the Centre for Diabetes and Endocrinology – for the efficient manner in which they have managed the various managed care programmes
- the management and staff of our value-added services partners – Ambledown Gap Cover, HealthSaver and Multiply – for the efficient manner in which they have managed the additional products offered to our members
- our Medical Advisor, Dr Martin Bailey, for his dedication and commitment to the Scheme
- our Principal Officer, Mr Amile Visser and Deputy Principal Officer, Ms Pamela Botha, for the daily management of the Scheme and for the assistance and sound advice they provide to our members
- our Actuarial Consultants, NMG Consultants and Actuaries, for their invaluable contributions throughout the year
- Willis Towers Watson for their assistance and guidance in managing our investments

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

A moment of appreciation (continued)

- the External Auditor, Ernst & Young Incorporated for the manner in which they conducted their audit
- the Registrar for Medical Schemes and his staff for their assistance during the year
- all other service providers.

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



HELEN DE LIGHT
CHAIRPERSON

Pick n Pay Medical Scheme

Annual Summary of Results for year ended 31 December 2020

Mandate of the Investment Committee

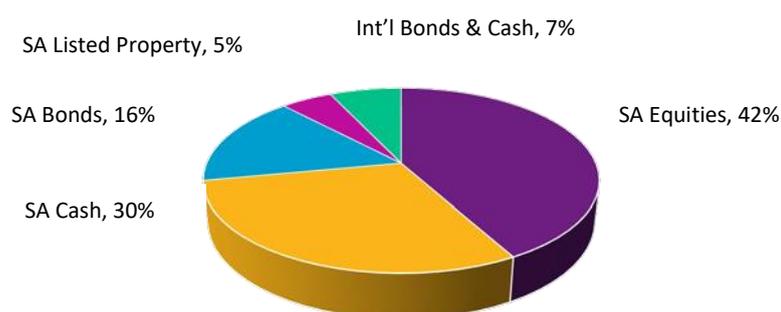
- The Board of Trustees has mandated the Investment Committee to monitor the investment performance and risk management of the Scheme's investments.
- The Board of Trustees has appointed Willis Towers Watson as their investment consultants to advise the Investment Committee and Board of Trustees on matters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

Investment philosophy and investment strategy

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

Strategic asset allocation (long-term assets)

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



Benchmarks

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

Investment analysis for the year ended 31 December 2020

Asset Class	Opening Market value (R'm) 01-Jan-20	Cashflow (R'm) Nett	Investment (R'm) Returns	Closing Market value (R'm) 31-Dec-20	Portfolio %	Calculated 12 Month (net) Return	Index Return
SA Equity	166.4	-	-6.0	160.4	30.9%	-3.6%	0.6%
Allan Gray	61.3	-	-2.9	58.4	11.3%	-4.8%	
Visio	39.3	-	-0.8	38.5	7.4%	-2.0%	0.6%
ABAX	65.8	-	-2.3	63.5	12.2%	-3.5%	
SA Cash	196.9	34.6	11.6	243.1	46.8%	5.8%	5.4%
Ninety One Stable Money Fund	66.6	-	4.2	70.8	13.6%	6.3%	
Coronation Medical Cash Fund	66.4	-	3.8	70.2	13.5%	5.7%	5.4%
Ninety One Corporate Money	36.1	33.6	2.9	72.6	14.0%	5.7%	
Standard Bank Current	27.8	1.0	0.7	29.5	5.7%	2.3%	
SA Listed Property	17.0	-	-5.1	11.9	2.3%	-29.7%	-35.5%
Sesfikile Property Fund	17.0	-	-5.1	11.9	2.3%	-29.7%	-35.5%
SA Bonds	63.9	-	3.2	67.1	12.9%	5.1%	8.7%
Coronation Strategic Bond Fund	63.9	-	3.2	67.1	12.9%	5.1%	8.7%
International Bonds¹	30.6	-	5.9	36.5	7.0%	19.4%	14.4%
Stanlib Global Bond Fund	30.6	-	5.9	36.5	7.0%	19.4%	14.4%
SUB-TOTAL (Excluding PMSA)	474.8	34.6	9.6	519.0	100.0%	2.0%	
Ninety One PMSA Fund	92.1	1.3	5.8	99.2		6.4%	
TOTAL	566.9	35.9	15.4	618.2		2.7%	

¹International Bonds returns in the table above are in Rand terms. The 12 Month net US Dollar return was 13.8% versus the Index return of 9.2%.

Disclaimer

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Appendix – Investment performance to periods ended 31 March 2021

Scheme performance versus benchmark		
Net returns	Long-term assets	SAA
3 months	5.7%	5.3%
1 year	23.5%	26.1%

Manager Performance versus Benchmark (all returns are in rand)				
Gross returns	Allan Gray SA equities	Abax SA equities	Visio SA equities	Benchmark
3 months	13.6%	13.3%	18.3%	12.6%
1 year	54.8%	46.2%	60.0%	54.2%

Gross returns	Ninety One Stable Money Fund	Coronation Medical Cash Fund	Benchmark
3 months	1.1%	1.4%	0.9%
1 year	5.4%	5.2%	4.6%

Net returns	Sesfikile Property Fund	Benchmark
3 months	7.7%	8.1%
1 year	31.9%	34.2%

Gross returns	Coronation Strategic Bond Fund	Benchmark
3 months	-1.0%	-1.7%
1 year	18.0%	17.0%

Net returns	Stanlib Global bonds	Benchmark
3 months	-3.3%	-4.0%
1 year	1.6%	-13.5%

**PICK N PAY MEDICAL SCHEME
SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2020**

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

The Trustees are responsible for the preparation and fair presentation of the summarised financial statements of Pick n Pay Medical Scheme, comprising the summarised statement of financial position as at 31 December 2020, summarised statement of comprehensive income, summarised statement of changes in equity and summarised statement of cash flows for the year then ended, and the notes to the summarised financial statements, which include a summary of significant accounting policies and other explanatory notes in accordance with 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 summarised financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

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

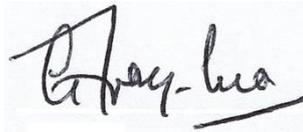
The auditor is responsible for reporting on whether the summarised financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the financial statements

The financial statements of Pick n Pay Medical Scheme were approved by the Board of Trustees on 23 April 2021. The summarised financial statements have been derived from information contained in the financial statements.



VAUGHAN PIERCE
VICE-CHAIRPERSON



GARY LEA
TRUSTEE



AMILE VISSER
PRINCIPAL OFFICER

23 April 2021

**PICK N PAY MEDICAL SCHEME
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 eight Trustees of whom four are proposed and elected by the members of the Scheme and four are nominated by the Employer, as well as two alternate Trustees proposed and elected by the members.

BOARD OF TRUSTEES

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

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

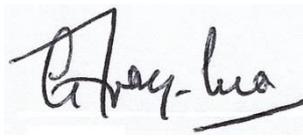
INTERNAL CONTROLS

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

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



VAUGHAN PIERCE
VICE-CHAIRPERSON



GARY LEA
TRUSTEE



AMILE VISSER
PRINCIPAL OFFICER

23 April 2021

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020**

The Board of Trustees hereby presents its report for the year ended 31 December 2020.

Registration number: 1563

1. MANAGEMENT

1.1 BOARD OF TRUSTEES

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

Employer appointed	Date of appointment	Date of resignation
- G Lea	30 June 2018*	
- V Pierce	30 June 2018*	
- V Ramakuela	30 June 2018*	15 September 2020
- J Dube	1 November 2018	
- P Gerber	25 February 2021	

* *Re-appointed*

Member elected	Date of appointment	Date of resignation
- H de Light (Chairperson)	21 June 2018*	
- R Johnson	21 June 2018*	
- E Rakgogo	21 June 2018	31 January 2020
- M Mahlaba	21 June 2018	15 October 2020
- Z Ameeroedien (Alternate member Trustee until 27 February 2020)	21 June 2018	
- R Sattar (Alternate member Trustee until 25 September 2021)	21 June 2018	
- L Andrews (Alternate member Trustee)	27 February 2020	
- R Faasen (Alternate member Trustee)	25 February 2021	

* *Re-elected*

1.2(a) PRINCIPAL OFFICER

A Visser

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

PO Box 23087
Claremont
7735

1.2(b) DEPUTY PRINCIPAL OFFICER

P Botha

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

PO Box 23087
Claremont
7735

1.3 REGISTERED OFFICE ADDRESS AND POSTAL ADDRESS

Pick n Pay Medical Scheme

Parc du Cap
Mispel Road
Bellville
7530

PO Box 4313
Cape Town
8000

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

1. MANAGEMENT (CONTINUED)

1.4 MEDICAL SCHEME ADMINISTRATOR

Momentum Health Solutions (Pty) Ltd

268 West Avenue
Centurion
Gauteng
0157

PO Box 7400
Centurion
0046

1.5 INVESTMENT MANAGERS

Allan Gray Life Ltd

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

PO Box 51318
V&A Waterfront
8002

Ninety One Plc

100 Grayston Drive
Sandown
Sandton
2196

PO Box 785700
Sandton
2146

Coronation Fund Managers Ltd

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

PO Box 44684
Claremont
7735

Abax Investments (Pty) Ltd

Second Floor Colinton House
The Oval
1 Oakdale Road
Newlands
7700

P. Suite 255
PO Box X1005
Claremont
7735

Stanlib Asset Management Ltd

17 Melrose Boulevard
Sanlamhof
Johannesburg
2196

PO Box 202
Melrose Arch
2076

Sesfikile Capital (Pty) Ltd

Second Floor, 18 The High Street
Melrose Arch
Johannesburg
2076

P. Suite 334
Private Bag X1
Johannesburg
2076

Visio Capital Management (Pty) Ltd

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

PO Box 3625
Tygervalley
7536

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

1. MANAGEMENT (CONTINUED)

1.6 AUDITOR

Ernst & Young Inc.

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

PO Box 656
Cape Town
8000

1.7 ACTUARIAL CONSULTANTS

NMG Consultants and Actuaries (Pty) Ltd

NMG House
411 Main Avenue
Randburg
2125

PO Box 3075
Randburg
2125

1.8 INVESTMENT CONSULTANTS

Willis Towers Watson Actuaries and Consultants (Pty) Ltd

Level 4, Montclare Place
23 Main Road
Claremont
7708

Private Bag X30
Rondebosch
7701

1.9 CAPITATION PROVIDERS

Centre for Diabetes & Endocrinology (Pty) Ltd

81 Central Street
Houghton
2198

PO Box 2900
Saxonwold
2132

ER24 EMS (Pty) Ltd

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

PO Box 242
Paulshof
2056

Momentum Health Solutions (Pty) Ltd

268 West Avenue
Centurion
Gauteng
0157

PO Box 7400
Centurion
0046

1.10 MANAGED CARE SERVICE PROVIDERS

Momentum Health Solutions (Pty) Ltd

268 West Avenue
Centurion
Gauteng
0157

PO Box 7400
Centurion
0046

1. MANAGEMENT (CONTINUED)

1.10 MANAGED CARE SERVICE PROVIDERS (CONTINUED)

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

10 Kikuyu Road
Sunninghill
Sandton
2157

PO Box 692
Johannesburg
2193

Private Health Administrators (Pty) Ltd

70 Buckingham Terrace
Pharos House Building
Westville
Durban
3630

PO Box 343
Westville
3630

2. DESCRIPTION OF THE MEDICAL SCHEME

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

2.1 BENEFIT OPTIONS WITHIN THE SCHEME

The Scheme offers the following two options to its members:

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

2.2 PERSONAL MEDICAL SAVINGS ACCOUNT

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

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

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

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

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

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

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

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

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

4. MANAGEMENT OF INSURANCE RISK

The primary insurance activity carried out by the Scheme assumes the risk of loss from members and their dependants that are directly subject to the risk. These risks relate to the health of 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.

5. REVIEW OF OPERATIONS

5.1 OPERATIONAL STATISTICS

The results of the Scheme's operations for the year under review at 31 December 2020 are set out in the financial statements and the Trustees believe that no further clarification is required.

2020	Plus	Primary	Total
Number of members at year end	6,361	737	7,098
Average number of members for the year	6,647	749	7,396
Number of beneficiaries at year-end	13,563	1,167	14,730

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

5. REVIEW OF OPERATIONS (CONTINUED)

5.1 OPERATIONAL STATISTICS (CONTINUED)

2020	Plus	Primary	Total
Average number of beneficiaries for the year	14,104	1,187	15,291
Proportion of dependants at year-end	1.1	0.6	1.1
Average age of beneficiaries	31.3	28.4	31.1
Pensioner ratio	4.8%	0.9%	4.5%
Average contributions net of savings per member per month	R3,477	R1,686	R3,296
Average contributions net of savings per beneficiary per month	R1,639	R1,064	R1,594
Average claims net of savings incurred per member per month	R2,951	R1,081	R2,761
Average claims net of savings incurred per beneficiary per month	R1,391	R682	R1,336
Average administration costs per member per month	R282	R282	R282
Average managed care: Managed services per member per month	R119	R96	R117
Average members' funds per member at year-end	N/A	N/A	R66,611
Relevant healthcare expenditure as a percentage of net contributions	83.2%	61.7%	82.1%
Relevant healthcare expenditure per average beneficiary per month	R1,364	R656	R1,309
Managed care: Management services as a percentage of net contributions	3.4%	5.7%	3.6%
Non-healthcare expenses as a percentage of gross contributions	6.7%	19.3%	7.2%
Non-healthcare expenditure per beneficiary per month	R133	R178	R136
Administration fees paid to the Administrator	R17,909,257	R2,075,007	R19,984,264
Average return on investments and cash	N/A	N/A	2.7%

2019	Plus	Primary	Total
Number of members at year-end	6,872	744	7,616
Average number of members for the year	6,900	675	7,575
Number of beneficiaries at year-end	14,531	1,183	15,714
Average number of beneficiaries for the year	14,524	1,067	15,591
Proportion of dependants at year-end	1.1	0.6	1.1
Average age of beneficiaries	31.1	27.7	30.8
Pensioner ratio	4.4%	0.7%	4.1%
Average contributions net of savings per member per month	R3,247	R1,621	R3,102
Average contributions net of savings per beneficiary per month	R1,543	R1,025	R1,507
Average claims net of savings incurred per member per month	R3,088	R1,019	R2,904
Average claims net of savings incurred per beneficiary per month	R1,467	R644	R1,411
Average administration costs per member per month	R270	R270	R270

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

5. REVIEW OF OPERATIONS (CONTINUED)

5.1 OPERATIONAL STATISTICS (CONTINUED)

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

5.2 ACCUMULATED FUNDS RATIO

2020

R

2019

R

The accumulated funds ratio is calculated on the following basis:

Total members' funds per statement of financial position	492,653,572	456,478,013
Less: Cumulative unrealised gains on investments at fair value through profit or loss	(66,714,082)	(74,835,094)
Accumulated funds per Regulation 29 of the Act	<u>425,939,490</u>	<u>381,642,919</u>

Gross contributions	361,856,463	348,964,354
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Accumulated funds ratio:

Accumulated funds/gross contributions x 100%	117.7%	109.4%
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5.3 OUTSTANDING CLAIMS

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

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

The Scheme holds investments indirectly with the Employer, but has granted no loans to the participating Employer of the Scheme or any other related parties. Refer to note 8 of the summarised financial statements for related party disclosures 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 cover of R120 million in aggregate (2019: R120 million) (limited to R60 million on any one claim – 2019: R60 million) and extends to Trustees, independent committee members, Principal Officer and Deputy Principal Officer of the Scheme.

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

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 five members of whom two are members of the Board of Trustees.

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

- 9 April 2020;
- 23 July 2020; and
- 15 October 2020.

The Administrator, its internal auditors and the external auditor of the Scheme are invited to attend all committee meetings and have unrestricted access to the Chairperson of the committee.

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

The members of the committee are:

Name	Designation	Date of appointment	Date of resignation
C Cowley	Independent member/Chairperson	23 November 2017	
L Clayton	Independent member	1 November 2015	
R Johnson	Member-elected Trustee	21 June 2018 *	
G Lea	Employer-appointed Trustee	30 June 2018 *	
R Faasen	Independent member	1 September 2019	25 February 2021
A Rolstone	Independent member	25 February 2021	
V Pierce	By invitation (Vice-Chairperson of the Board of Trustees)	3 August 2017	
H de Light	By invitation (Chairperson of the Board of Trustees)	11 June 2015	

* Re-appointed

A Visser attends in his capacity as Principal Officer.

P Botha attends in her capacity as Deputy Principal Officer.

9.2 INVESTMENT COMMITTEE

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

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

- 13 February 2020;
- 14 May 2020;
- 6 August 2020; and
- 12 November 2020.

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

9. COMMITTEES OF THE BOARD OF TRUSTEES (CONTINUED)

9.2 INVESTMENT COMMITTEE (CONTINUED)

The members of the committee are:

Name	Designation	Date of appointment	Date of resignation
G Lea	Employer-appointed Trustee/Chairperson	30 June 2018 *	
V Ramakuela	Employer-appointed Trustee	30 June 2018 *	15 September 2020
R Johnson	Member-elected Trustee	21 June 2018 *	
P Gerber	Employer-appointed Trustee from 25 February 2021	3 August 2017	
V Pierce	Employer-appointed Trustee	1 January 2019	
R Sattar	Member-elected Trustee	25 January 2021	
Ms H de Light	Invitee	21 June 2018 *	
A Visser	Independent member	1 September 2019	
P Botha	Independent member	1 September 2019	

* *Re-elected*

9.3 CLINICAL COMMITTEE

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

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

- 6 February 2020;
- 30 July 2020; and
- 22 October 2020.

The members of the committee are:

Name	Designation	Date of appointment	Date of resignation
M Bailey	Medical Advisor/Chairperson	11 June 2015	
V Pierce	Employer-appointed Trustee	3 August 2017	
Ms H de Light	Invitee	21 June 2018 *	
Ms R Sattar	Member-elected Trustee (Alternate Trustee until 25 February 2021)	1 September 2019	
M Mahlaba	Member-elected Trustee	1 September 2019	15 October 2020
A Visser	Independent member	1 September 2019	
P Botha	Independent member	1 September 2019	

* *Re-elected*

9.4 EX GRATIA COMMITTEE

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

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

- 27 February 2020;
- 22 October 2020; and
- 26 November 2020.

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

9. COMMITTEES OF THE BOARD OF TRUSTEES (CONTINUED)

9.4 EX- GRATIA COMMITTEE

The members of the committee are:

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

* Re-elected

10. MEETING ATTENDANCES

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

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

A – Total possible number of meetings could have attended

B – Actual number of meetings attended

* – A Visser attends in his capacity as Principal Officer

– P Botha attends in her capacity as Deputy Principal Officer

**PICK N PAY MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

11. RISK TRANSFER ARRANGEMENTS

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

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

The following cumulative Covid-19 information from March 2020 until end of March 2021 was taken into consideration:

- Total members infected by Covid-19	572
- Total members recovered from Covid-19	538
- Total member deaths from Covid-19	21
- Total Covid-19 related claims in rand	R24 585 278
- Total members utilising personal medical savings accounts for Covid relief	2
- Total rand amount of personal medical savings account Covid relief utilised	R2 450
- Total rand amount of relief via rule amendments	R16 700

The Board of Trustees will continue to consider the potential impact of the Covid-19 outbreak on significant estimates and judgements going forward.

The Trustees monitored the impact of the Covid-19 pandemic closely during 2020. The Trustees were provided with regular updates on emerging trends for the Scheme, the medical schemes industry and the country. Just under 22% of Scheme beneficiaries were tested for Covid-19 during 2020, with 5% of beneficiaries testing positive. Both the percentage of beneficiaries tested, as well as the percentage of beneficiaries testing positive for Covid-19, were slightly higher than the average for the medical schemes industry. The Scheme's Covid-19-related claims costs were approximately R13 million or 3.5% of risk contributions in 2020. The national Covid-19 lockdown resulted in a significant reduction in overall claims costs between March and December 2020 due to elective surgeries being postponed and a lower demand for general out-of-hospital services. This resulted in overall claims costs being 16% lower than budgeted for and the solvency ratio increasing to well above 100% at the end of 2020. The Scheme was therefore in a sound financial position at the end of 2020.

Provision was made in the 2021 budget both for claims returning to pre-pandemic levels, as well as a release of the pent-up demand created during the period of reduced claims in 2020. This would result in the projected solvency ratio to be reduced slightly during 2021, but to remain above 100%. The financial impact of funding the Covid-19 vaccine will depend on the costing and availability of the various vaccines, but initial actuarial modelling indicates that it will likely not exceed 4% of budgeted accumulated funds. The Scheme is therefore still projected to be in a strong financial position at the end of 2021, even after making provision for claims to return to pre-pandemic levels, allowing for a release of pent-up demand and funding of the Covid-19 vaccine. The timing and extent of the release of the pent-up demand is uncertain at this stage, since this will be impacted by potential future waves of Covid-19 infections and phases of lockdown.

During the 2021 contribution review process, which included sensitivity analyses on the various assumptions affecting the assumed claims cost increases and investment returns, including the impact of Covid-19, no adverse considerations have been identified that would affect the Scheme's ability to continue as a going concern for the next annual reporting period.

It is expected that the Scheme's reserve ratio will decrease from 117.7% at 31 December 2020 to a budgeted reserve ratio of 113.8% at 31 December 2021.

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 and Coronation. 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 and Coronation. This is in contravention of Section 35(8)(c) of the Act, as the Scheme is not allowed to hold shares in the holding company of an administrator.

Causes of the non-compliance

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

Corrective course of action

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

13.2 Non-compliance with Section 8(h) of the Act – Investment in derivatives

Nature and impact

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

Causes of the non-compliance

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

Corrective course of action

The Scheme applied for an exemption renewal from the Council for Medical Schemes and received confirmation of an exemption on 17 December 2020. The exemption will be valid until 30 November 2022, subject to renewal.

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

13.3 Contravention of Section 26(7) of the Medical Schemes Act

Nature and impact

In terms of Section 26(7) of the Act, contributions should be received at the latest three days after they are due. An amount of R126,896 (2019: R2,241,777) was still outstanding by more than three days after it was due, as at 31 December 2020.

Causes for the failure

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

13. NON-COMPLIANCE MATTERS (CONTINUED)

Contraventions for which exemption was applied for from the Council for Medical Schemes (continued)

13.3 Contravention of Section 26(7) of the Medical Schemes Act (continued)

Corrective action

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

13.4 Contravention of Section 59(2) of the Medical Schemes Act

Nature and impact

Section 59 (2) of the Medical Schemes Act states that a medical scheme shall pay a member or supplier of service any benefit owing to that member or supplier within 30 days of receipt of the medical claim. A number of claims were settled outside the statutory timeframe of 30 days, resulting in non-compliance with the Medical Schemes Act.

Causes for the failure

Management was waiting for confirmation of banking details from providers and members. This resulted in claims not being paid within the 30 days statutory timeframe.

Corrective action

Management has a claims report to monitor claims and to ensure that claims are paid within the 30 days statutory timeframe.

Independent Auditor's Report on the Summarised Financial Statements

To the Members of Pick n Pay Medical Scheme

Opinion

The summarised financial statements, as set out on pages 29 to 48, which comprise the summarised statement of financial position as at 31 December 2020, the summarised statement of comprehensive income, the summarised statement of changes in funds and reserves and the summarised statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of Pick n Pay Medical Scheme for the year ended 31 December 2020.

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

Summarised Financial Statements

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

The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated 23 April 2021.

Trustees' Responsibility for the Summarised Financial Statements

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

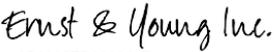
Auditor's Responsibility

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

Report on Other Legal and Regulatory Requirements

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

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

DocuSigned by:

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Ernst & Young Inc.

Director: David Christian

Registered Auditor Chartered Accountant (SA)

7 June 2021

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

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

**SUMMARISED STATEMENT OF FINANCIAL POSITION
as at 31 December 2020**

	Notes	2020 R	2019 R
ASSETS			
Non-current assets			
Financial assets at fair value through profit or loss	2	275,887,162	277,802,067
Current assets			
Insurance and other receivables		1,700,556	3,054,346
Cash and cash equivalents		342,350,362	289,096,501
Scheme cash and cash equivalents		243,114,125	197,036,620
Personal medical savings account investment	4	99,236,237	92,059,881
Total assets		619,938,080	569,952,914
FUNDS AND LIABILITIES			
Members' funds			
Accumulated funds		492,653,572	456,478,013
Current liabilities			
Personal medical savings account liability	3	100,486,580	94,032,877
Insurance and financial liabilities		17,159,156	10,795,770
Outstanding risk claims provision	5	9,638,772	8,646,254
Total funds and liabilities		619,938,080	569,952,914

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

**SUMMARISED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2020**

	Notes	2020 R	2019 R
Risk contribution income	6	292,525,194	281,993,940
Relevant healthcare expenditure		(240,249,027)	(259,018,715)
Net claims incurred		(245,071,033)	(263,928,974)
Risk claims incurred	7	(235,174,846)	(255,745,973)
Accredited managed healthcare services		(10,385,499)	(8,577,641)
Third-party claim recoveries		489,312	394,640
Net income on risk transfer arrangements	7	4,822,006	4,910,259
Risk transfer arrangements premiums paid		(19,211,880)	(17,350,489)
Recoveries from risk transfer arrangements		24,033,886	22,260,748
Gross healthcare result		52,276,167	22,975,225
Administration fees and other operative expenses		(25,021,117)	(24,546,196)
Movement in provision for impairment on insurance receivables		18,308	(26,259)
Net healthcare result		27,273,358	(1,597,230)
Other income		15,444,688	33,902,694
Capitalised interest and dividends		21,374,741	24,622,229
Realised gains on financial assets		1,503,491	1,989,831
Unrealised (losses)/gains on financial assets		(8,121,012)	7,174,348
Sundry income		687,468	116,286
Other expenditure		(6,542,487)	(7,272,277)
Asset management fees		(601,715)	(226,930)
Interest paid on personal medical savings account	3	(5,940,772)	(7,045,347)
Net income for the year		36,175,559	25,033,187
Other comprehensive income		-	-
Total comprehensive income for the year		36,175,559	25,033,187

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

**SUMMARISED STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2020**

	R
	Members' funds and accumulated funds
Balance as at 1 January 2019	431,444,826
Net profit for the year	25,033,187
Balance as at 31 December 2019	456,478,013
Net profit for the year	36,175,559
Balance as at 31 December 2020	492,653,572

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

**SUMMARISED STATEMENT OF CASH FLOWS
for the year ended 31 December 2020**

	Notes	2020 R	2019 R
CASH FLOW FROM OPERATING ACTIVITIES			
Net income for the year		36,175,559	25,033,187
- Realised losses/(gains) on disposal of financial assets at fair value through profit or loss		(208,844)	(730,271)
- Investment income		(15,433,969)	(17,576,882)
- Capitalised interest and dividends		(4,811,656)	(4,818,253)
- Unrealised (losses)/gains on financial assets at fair value through profit or loss	2	6,935,405	(7,715,430)
- Interest expense on personal medical savings accounts	3	5,940,772	7,045,347
Cash flows generated in operations before working capital changes		28,597,267	1,237,698
Working capital changes		15,158,341	9,530,559
- Increase in insurance and financial liabilities		1,348,734	(163,551)
- Increase in personal medical savings accounts liability		6,363,386	2,069,762
- Increase/(Decrease) in outstanding risk claims provision		6,453,703	7,894,513
		992,518	(270,165)
Cash generated from operations		43,755,608	10,768,257
Interest received		11,413,893	13,354,237
Dividends received		4,025,132	4,226,731
Interest paid on personal medical savings accounts	3	(5,940,772)	(7,045,347)
Net cash flow generated in operating activities		53,253,861	21,303,878
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to financial assets at fair value through profit or loss	2	-	(6,300,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS		53,253,861	15,003,878
Cash and cash equivalents at the beginning of the year		289,096,501	274,092,623
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		342,350,362	289,096,501

**PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2020**

1. PRINCIPAL ACCOUNTING POLICIES

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

Statement of compliance

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

1.1 Basis of preparation

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

The summarised financial statements are prepared:

- in accordance with the recognition and measurement requirements of IFRS;
- in the manner required by the Medical Schemes Act, No 131 of 1998, as amended
- in accordance with the presentation and disclosure requirements of International Financial Reporting Standards IAS 34, Interim Financial Reporting.

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

These summarised, consolidated, audited financial statements are consistent in all respects with the audited annual financial statements of the Company for the period ended 31 December 2020. A copy of these audited financial statements can be obtained from the Scheme on request by parties entitled to such information.

Standards issued and effective in the current year

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 are 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.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.1 Basis of preparation (continued)

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.

IFRS 17: Insurance Contracts

In May 2017, the IASB issued IFRS 17: Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure.

IFRS 17 will replace IFRS 4: Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach); and
- a simplified approach (the premium allocation approach), mainly for short-duration contracts.

IFRS 17 will impact the measurement of the contracts with members in the Fund's financial statements. The Fund will qualify for the premium allocation approach, which requires the Fund to recognise a liability for remaining coverage (with reference to the premiums received) and liability for incurred claims (calculated as the expected cash outflows and a risk adjustment). The Fund expects that the boundary of the contracts with members will be one year. The Fund will be required to assess for onerous contracts at the point members elect the benefit option for the following year.

The Fund shall adopt the standards, interpretations or amendments on their effective dates.

Once effective, IFRS 17 will replace IFRS 4: Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. As IFRS 17 is effective for annual periods beginning on or after 1 January 2023, the impact of this amendment will still be assessed by the Fund.

The other new and amended standards and interpretations issued and not yet effective is not expected to have a significant impact on the Scheme's financial statements.

Critical judgements

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

PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

2. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS	2020	2019
	R	R
Fair value at the beginning of the year	277,802,067	258,238,113
Additions	-	6,300,000
Capitalised interest and dividends	4,266,980	4,561,182
Realised gains on financial assets at fair value through profit or loss	208,844	730,271
Unrealised (losses)/gains on revaluation of financial assets at fair value through profit or loss	(6,935,405)	7,715,430
Investment income	544,676	257,071
Fair value at the end of the year	<u>275,887,162</u>	<u>277,802,067</u>

The investments included above represent investments in:

Allan Gray Equity Fund	58,422,934	61,373,244
Sesfikile Property Fund	11,913,405	16,955,705
Abax Prescient Equity Fund	63,459,381	65,772,320
Stanlib Brandywine	36,539,813	30,607,595
Visio Capital Fund	38,494,121	39,291,608
Coronation Strategic Bond Fund	67,057,508	63,801,595
	<u>275,887,162</u>	<u>277,802,067</u>

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

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

Balance of personal medical savings account liability at the beginning of the year	94,032,877	86,138,364
Less: Prior year advances on personal medical savings account	(50,247)	(67,385)
Adjusted balance on personal medical savings account at the beginning of the year	93,982,630	86,070,979
Add:		
Savings account contributions received or receivable (note 6)	69,331,269	66,970,414
Interest earned on monies invested	5,940,772	7,045,347
Less:		
Claims paid out of savings (note 7)	(62,498,814)	(61,256,958)
Refunds on death or resignation in terms of Regulation 10(4)	(6,343,404)	(4,847,152)
Add:		
Advance on personal medical savings account	74,127	50,247
Balance on personal medical savings account at the end of the year	<u>100,486,580</u>	<u>94,032,877</u>

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.

PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

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

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 2020 but not yet reported will amount to R3 303 647 (2019: R1 857 373) (note 5).

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

Refer to note 11 for Covid-19-related savings claims paid.

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

	2020	2019
	R	R
Ninety One Plc. Stable Money Fund	99,236,237	92,059,881

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 8.02% (2019: 8.52%). The total interest earned was R5,943,001 (2019: R7,045,347). The investment is aligned in the following month after the month-end claims run has occurred and when interest earned for the month has been received.

5. OUTSTANDING RISK CLAIMS PROVISION

	Covered by risk transfer arrangements	Not covered by risk transfer arrangements
2020	R	R
Outstanding claims provision	156,622	9,482,150
	156,622	9,482,150
Analysis of movements in outstanding claims		
Balance at beginning of year	173,357	8,472,897
Payments in respect of prior year	(173,357)	(6,903,412)
Over-provision in respect of prior year	-	1,569,485
Adjustment for current year	156,622	7,912,665
Balance at end of year	156,622	9,482,150
Total outstanding claims provision at end of year		9,638,772

PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

5. OUTSTANDING RISK CLAIMS PROVISION (CONTINUED)

	Covered by risk transfer arrangements	Not covered by risk transfer arrangements
2019	R	R
Outstanding claims provision	173,357	8,472,897
	<u>173,357</u>	<u>8,472,897</u>
Analysis of movements in outstanding claims		
Balance at beginning of year	171,097	8,745,322
Payments in respect of prior year	(171,097)	(10,300,359)
Under-provision in respect of prior year	-	(1,555,037)
Adjustment for current year	173,357	10,027,934
Balance at end of year	<u>173,357</u>	<u>8,472,897</u>
Total outstanding claims provision at end of year		<u>8,646,254</u>
	2020	2019
	R	R
Analysis of outstanding risk claims provision		
Estimated gross claims	12,785,797	10,330,270
Less: Estimated recoveries from personal medical savings account (note 8 from the full financial statements)	(3,303,647)	(1,857,373)
IBNR covered by risk transfer arrangements	156,622	173,357
	<u>9,638,772</u>	<u>8,646,254</u>

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

Covid-19 did not impact the provision for outstanding claims and claims operated as per the norm from September 2020 onwards.

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.

**PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)**

5. 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 dependants; 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:

	2020	2019
	%	%
Claims outstanding for services rendered in:		
- December	8.0	9.0
- November	4.0	4.5
- 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:

	2020	2019
	R	R
Effect of a 1% increase	892,397	289,697
Effect of a 2% increase	1,803,896	1,194,020
Effect of a 3% increase	2,734,718	2,118,446

PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

5. OUTSTANDING RISK CLAIMS PROVISION (CONTINUED)

Other assumptions (continued)

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

6. RISK CONTRIBUTION INCOME

	2020	2019
	R	R
Gross contributions per registered rules	361,856,463	348,964,354
Less: Personal medical savings contributions received (note 3)	<u>(69,331,269)</u>	<u>(66,970,414)</u>
Risk contribution income per statement of comprehensive income	<u>292,525,194</u>	<u>281,993,940</u>

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

7. RISK CLAIMS INCURRED

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

Current year claims per registered rules	264,157,624	286,269,286
Movement in outstanding risk claims provision	9,482,150	8,472,897
Over/(under) provision in the prior year (note 5)	<u>1,569,485</u>	<u>(1,555,037)</u>
Adjustment for current year (note 5)	<u>7,912,665</u>	<u>10,027,934</u>
	<u>273,639,774</u>	<u>294,742,183</u>
Less:		
Claims paid from personal medical savings accounts (note 3)	<u>(62,498,814)</u>	<u>(61,256,958)</u>
Risk claims incurred	<u>211,140,960</u>	<u>233,485,225</u>

Total claims incurred, excluding risk transfer arrangements 211,140,960 233,485,225

Claims incurred in respect of risk transfer arrangements

Current year claims	24,033,886	22,260,748
Claims incurred per the statement of comprehensive income	<u>235,174,846</u>	<u>255,745,973</u>

Net income on risk transfer arrangements

Premiums paid	(19,211,880)	(17,350,489)
Recoveries received	<u>24,033,886</u>	<u>22,260,748</u>
Net income on risk transfer arrangements	<u>4,822,006</u>	<u>4,910,259</u>

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

A risk transfer arrangement was entered into 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.

**PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)**

7. RISK CLAIMS INCURRED (CONTINUED)

Claims incurred, excluding claims incurred in respect of risk transfer arrangements (continued)

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

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

8. 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 does 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 does not control the Scheme. WTW provides investment consulting services.

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

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

Key management personnel and their close family members

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board of Trustees, the Principal Officer, Deputy Principal Officer and members of committees.

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

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

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

	2020	2019
	R	R
Statement of comprehensive income		
Gross contributions received (key management personnel)	814,610	845,352
Claims incurred (key management personnel)	1,378,849	1,345,701
Interest paid on personal medical savings account (key management personnel)	11,983	14,261
Compensation (key management personnel)		
- Medical advisor (key management personnel)	872,952	832,152
Administrator's fee (MHS)	19,984,264	19,498,550
Risk transfer arrangement fee and managed care fee (MHS)	6,651,111	5,924,882
Consulting fee (NMG)	2,985,920	2,868,330
Investment consulting fee (WTW)	128,886	124,976
Trustee travel	-	87,120

**PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)**

8. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions and balances with related parties and parties with significant influence over the Scheme (continued)

	2020	2019
	R	R
Statement of financial position		
Personal medical savings account liability (key management personnel)	212,049	204,409
Investment consulting fee (WTW) (included in accrued expenses)	11,021	31,941
Reimbursement of postage/printing cost payable to MHS (included in accrued expenses)	30,701	15,802
NMG Actuaries	248,827	239,027
Trustee travel	-	20,087

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

Contributions received (key management personnel)

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

Claims incurred (key management personnel)

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

Compensation (key management personnel)

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

Trustee travel (key management personnel)

This constitutes Trustee travelling reimbursable to the Employer Group.

Administration fees

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

Risk transfer arrangement

The risk transfer agreement with MHS is in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite, but subject to the right of either party to terminate the agreement by giving not less than one months' 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 exits the Scheme.

**PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)**

8. RELATED PARTY DISCLOSURES (CONTINUED)

Actuarial and consulting fees

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

Investment consulting fees

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

9. FINANCIAL RISK MANAGEMENT

Fair value estimation

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

The tables below illustrate 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. The valuation requires management to use unobservable inputs in the model, of which the significant unobservable inputs are disclosed in the tables below. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.
- There is an active market for the Fund's listed equity investments and quoted debt instruments.

At 31 December 2020	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Reclassification</i>
	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>
Financial assets at fair value through profit or loss				
Collective investment schemes	-	150,406,720	-	-
Market-linked policies	-	125,480,442	-	-
Cash and cash equivalents				
Collective investment schemes	-	72,611,278	-	-
Market-linked policies	-	240,278,382	-	-
Current accounts	-	29,460,702	-	-
Total	-	618,237,524	-	-

PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value estimation (continued)

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

The hierarchy levels are defined as follows:

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

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

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

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

10. CONTINGENT ASSET

At 31 December 2020 the Scheme had pending motor vehicle accident recoveries submitted to the Road Accident Fund (RAF) for assessment. These recoveries will only be accounted for when an amount is virtually certain to be received from the RAF. The value of pending claims at year-end amounted to R5 765 643 (2019: R5 451 261).

11. 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.

The following cumulative Covid-19 information from March 2020 until end of March 2021 was taken into consideration:

- Total members infected by Covid-19	572
- Total members recovered from Covid-19	538
- Total member deaths from Covid-19	21
- Total Covid-19-related claims in rand	R24 585 278
- Total members utilising PMSA for Covid-19 relief	2
- Total rand amount of PMSA Covid-19 relief utilised	R2 450
- Total rand amount of relief via rule amendments	R16 700

The Board of Trustees will continue to consider the potential impact of the Covid-19 outbreak on significant estimates and judgements going forward.

11. SUBSEQUENT EVENTS (CONTINUED)

The Trustees monitored the impact of the Covid-19 pandemic closely during 2020. The Trustees were provided with regular updates on emerging trends for the Scheme, the medical schemes industry and the country. Just under 22% of Scheme beneficiaries were tested for Covid-19 during 2020, with 5% of beneficiaries testing positive. Both the percentage of beneficiaries tested, as well as the percentage of beneficiaries testing positive for Covid-19, were slightly higher than the average for the medical schemes industry. The Scheme's Covid-19-related claims costs were approximately R13 million or 3.5% of risk contributions in 2020. The national Covid-19 lockdown resulted in a significant reduction in overall claims costs between March and December 2020 due to elective surgeries being postponed and a lower demand for general out-of-hospital services. This resulted in overall claims costs being 16% lower than budgeted for and the solvency ratio increasing to well above 100% at the end of 2020. The Scheme was therefore in a sound financial position at the end of 2020.

Provision has been made in the 2021 budget both for claims returning to pre-pandemic levels, as well as a release of the pent-up demand created during the period of reduced claims in 2020. This would result in the projected solvency ratio to reduce slightly during 2021, but to remain above 100%. The financial impact of funding the Covid-19 vaccine will depend on the costing and availability of the various vaccines, but initial actuarial modelling indicates that it will likely not exceed 4% of budgeted accumulated funds. The Scheme is therefore still projected to be in a strong financial position at the end of 2021, even after making provision for claims to return to pre-pandemic levels, allowing for a release of pent-up demand and funding of the Covid-19 vaccine. The timing and extent of the release of the pent-up demand is uncertain at this stage, since this will be impacted by potential future waves of Covid-19 infections and phases of lockdown.

During the 2021 contribution review process, which included sensitivity analyses on the various assumptions affecting the assumed claims cost increases and investment returns, including the impact of Covid-19, no adverse considerations have been identified that would affect the Scheme's ability to continue as a going concern for the next annual reporting period.

It is expected that the Scheme's reserve ratio will decrease from 117.7% at 31 December 2020 to a budgeted reserve ratio of 113.8% at 31 December 2021.

Conclusion

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

12. NON-COMPLIANCE MATTERS

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

12.1 Contravention of Section 35(8)(a) and Section 35(8)(c)

Nature and impact

The Scheme holds an indirect investment in the participating Employer via investments placed with Allan Gray and Coronation. 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 and Coronation. 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.

12. NON-COMPLIANCE MATTERS (CONTINUED)

Contraventions for which exemption was applied for from the Council for Medical Schemes (continued)

12.1 Contravention of Section 35(8)(a) and Section 35(8)(c) (continued)

Corrective course of action

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

12.2 Non-compliance with Section 8(h) of the Act – Investment in derivatives

Nature and impact

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

Causes of the non-compliance

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

Corrective course of action

The Scheme applied for an exemption renewal from the Council for Medical Schemes and received confirmation of an exemption on 17 December 2020. The exemption will be valid until 30 November 2022, subject to renewal.

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

12.3 Contravention of Section 26(7) of the Medical Schemes Act

Nature and impact

In terms of Section 26(7) of the Act, contributions should be received at the latest three days after they are due. An amount of R126,896 (2019: R2,241,777) was still outstanding by more than three days after it was due, as at 31 December 2020.

Causes for the failure

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

Corrective action

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

12.4 Contravention of Section 59(2) of the Medical Schemes Act

Nature and impact

Section 59(2) of the Medical Schemes Act states that a medical scheme shall pay a member or supplier of service any benefit owing to that member or supplier within 30 days of receipt of the medical claim. A number of claims were settled outside the statutory timeframe of 30 days, resulting in non-compliance with the Medical Schemes Act.

**PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)**

12. NON-COMPLIANCE MATTERS (CONTINUED)

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

12.4 Contravention of Section 59(2) of the Medical Schemes Act (continued)

Causes for the failure

Management was waiting on confirmation of banking details from providers and members. This resulted in claims not being paid within the 30-day statutory timeframe.

Corrective action

Management has a claims report to monitor claims and to ensure that claims are paid within the 30-day statutory timeframe.

13. COMPLETE SET OF AUDITED FINANCIAL STATEMENTS

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

Registered office address:

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

PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

14. SURPLUS PER BENEFIT OPTION

2020	Plus	Primary	Total
	R	R	R
Risk contribution income	277,371,720	15,153,474	292,525,194
Relevant healthcare expenditure	(230,905,286)	(9,343,741)	(240,249,027)
Net claims incurred	(235,350,923)	(9,720,110)	(245,071,033)
Risk claims incurred	(226,319,930)	(8,854,916)	(235,174,846)
Accredited managed healthcare services	(9,520,305)	(865,194)	(10,385,499)
Third-party claim recoveries	489,312	-	489,312
Net income on risk transfer arrangement	4,445,637	376,369	4,822,006
Risk transfer arrangement premiums paid	(15,123,577)	(4,088,302)	(19,211,879)
Recoveries from risk transfer arrangements	19,569,214	4,464,671	24,033,885
Gross healthcare result	46,466,434	5,809,733	52,276,167
Administration fees and other operative expenses	(22,487,308)	(2,533,809)	(25,021,117)
Net impairment losses on healthcare receivables	18,308	-	18,308
Net healthcare result	23,997,434	3,275,924	27,273,358
Other income	13,642,923	1,801,765	15,444,688
Capitalised interest and dividends	19,223,221	2,151,520	21,374,741
Realised gains on financial assets	1,348,811	154,680	1,503,491
Unrealised gain on financial assets	(7,545,099)	(575,913)	(8,121,012)
Sundry Income	615,990	71,478	687,468
Other expenditure	(6,481,483)	(61,004)	(6,542,487)
Asset management fees	(540,711)	(61,004)	(601,715)
Interest paid on personal medical savings accounts	(5,940,772)	-	(5,940,772)
Net profit for the year	31,158,874	5,016,685	36,175,559

PICK N PAY MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

14. SURPLUS PER BENEFIT OPTION (CONTINUED)

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

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 the membership of each option.