

MEDSHIELD MEDICAL SCHEME

Registration Number: 1140

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

MEDSHIELD MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2021

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

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MEDSHIELD MEDICAL SCHEME

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

for the year ended 31 December 2021

The Trustees of the Scheme ("the Board") are responsible for the preparation, integrity, and fair presentation of the Annual Financial Statements of Medshield Medical Scheme ("the Scheme"/"Medshield"). The Annual Financial Statements presented on pages 36 - 93 comprise the Statement of Financial Position at 31 December 2021, and the Statement of Comprehensive Income, Changes in Funds and Reserves, Statement of Cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information. The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Medical Schemes Act, 131 of 1998 as amended, and include amounts based on judgements and estimates made by management.

The Trustees consider that in preparing the Annual Financial Statements of the Scheme, management has used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. Furthermore International Financial Reporting Standards (IFRS) and Council for Medical Schemes (CMS) guidelines have been followed.

The Trustees are satisfied that the information contained in the Annual Financial Statements fairly presents the results of operations and cash flows for the year and the financial position of the Scheme at year-end.

The Trustees are responsible for the accuracy of information included in the Annual Financial Statements and consistency of such information within the Annual Financial Statements. The Trustees are responsible for ensuring that accounting records are kept. The accounting records disclose, with reasonable accuracy, the financial position of the Scheme which enables the Trustees to ensure that the annual financial statements comply with the relevant legislation.

The Scheme operates in a self-administered environment which is well documented and has been reviewed regularly by the Scheme's internal auditors during the financial period. The Scheme maintains a risk register to assess and monitor its risks. The internal control procedures are designed to provide reasonable assurance that assets are safeguarded and the risks facing the Scheme are being appropriately managed.

The going concern basis has been adopted in preparing the Financial Statements. The Trustees have no reason to believe that the Scheme will not be a going concern in the foreseeable future, which assumption is supported by forecasts and available cash resources.

The Scheme's external auditors, Deloitte & Touche, are responsible for auditing the Annual Financial Statements in terms of International Standards on Auditing. Deloitte & Touche have unrestricted access to all financial records and related data, including minutes of all Board of Trustees, Board Committees and Executive Committee meetings. The Acting Principal Officer and management believe that all representations made to the independent auditors during their audit were accurate and appropriate.

The Annual Financial Statements were approved by the Board on 28 April 2022 and are signed on its behalf by:



Mr Andries Labuscagne
Chairperson: Board of Trustees



Mr Mammule Chidi
Deputy Chairperson: Board of
Trustees



Mr Alan Fritz
Acting Principal Officer

28 April 2022

MEDSHIELD MEDICAL SCHEME

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

for the year ended 31 December 2021

Medshield is committed to the principles and practices of fairness, transparency, independence, responsibility, integrity and accountability in all dealings with its stakeholders. The Board conducts all its affairs according to Medshield values and within a recognised governance framework. The affairs of the Scheme are managed in accordance with the rules of the Scheme and also adhere to all aspects of governance as required by the Medical Schemes Act 131 of 1998, as amended. The Board is also committed to the principles set out in the King IV Report on Corporate Governance.

Board of Trustees

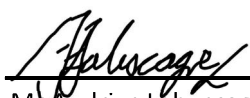
The Board consists of member representatives who are nominated and elected by the members of the Scheme, and co-opted members who are appointed by the Board for their skills and expertise. The Board meets at least once a quarter during the year and monitors the performance of the Scheme. The Board's performance and that of its Committees are appraised annually against agreed terms of reference. The Scheme is self-administered and all administration matters are under the direct control of the Board of Trustees. The Board has oversight over a range of key issues and ensures that discussions of policy, strategy and performance are critical, informed and constructive.

Risk Management and Internal Controls

Risks are identified, placed on a risk register and regularly reviewed by management. The risks are rated, based on likelihood of materialising and the likely impact on the Scheme. Specific strategies and/or mitigation processes are set in place to deal with these risks.

Scheme's Management is accountable to the Board for the design, implementation, monitoring and integrating of risk management and risk assessment into the day-to-day operation of the Scheme focusing on the efficiency and effectiveness of operations, safeguarding the Scheme's assets, legal and regulatory compliance, business sustainability and reliable reporting. The system of internal control is structured in such a manner that it provides reasonable assurance that the likelihood of a significant adverse impact on objectives arising from a future event or situation is maintained at an acceptable level to the Scheme.

The Board has appointed an Audit, Risk and Compliance Committee which reports to the Board independently and is responsible for oversight of the Scheme's risk management process.



Mr Andries Labuscagne
Chairperson: Board of Trustees



Mr Mammule Chidi
Deputy Chairperson: Board of
Trustees



Mr Alan Fritz
Acting Principal Officer

28 April 2022

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

1 Review of 2021

1.1 Brief Synopsis of the year under review

The Board is responsible for the overall governance of the Scheme in accordance with the Medical Schemes Act 131 of 1998 ("the Act") and the approved Scheme rules. The purpose of the Board Report is to inform the Scheme Members and Stakeholders on how the Board has overseen the management of the Scheme.

As a mutual society, not-for-profit entity, the Scheme continues to place members at the heart of its business by protecting them from rising financial hardship when they face routine or even catastrophic healthcare events, and by guiding them to access private healthcare with the best quality outcomes for themselves and their dependents while being financially viable for the Scheme.

The year 2021 forms part of the most trying times in the history of humankind, as a uniquely challenging year characterised by the continued worldwide global crisis brought about by the Coronavirus (COVID-19) pandemic. Never has the world faced such challenging global healthcare challenges. The Scheme, like many businesses and individuals, found itself in uncharted territory and had to adapt to the many business and operational challenges brought on by the pandemic, while also ensuring that the Scheme serviced its members' healthcare needs. Amongst the many challenges which the Scheme faced included the following:

- a) The health and wellbeing of members and Medshield employees continued to be vulnerable to the pandemic and other medical diseases and conditions, including mental health challenges;
- b) South Africa, already faced economic challenges before the pandemic and faced further economic decline as a result of COVID-19, which placed a strain on the retention of members;
- c) Ensuring business continuity;
- d) Unlocking COVID-19 benefits for members and reducing the burden of healthcare expenditure.

All of these factors have had a major impact on the entire healthcare industry and the Scheme was not immune.

At the end of the financial year, the Scheme, unfortunately, recorded a decline in membership compared to the previous financial year, and ended the year with 74 206 (2020: 75 285) principal lives and 149 513 (2020: 150 975) beneficiaries. Amidst the continued pandemic, it is imperative highlighting that due to the significant reduction in healthcare expenditure, the Scheme recorded a R11.3m (2020: R396.1m) net healthcare result. The surplus for the year is R188.9m, which is R336m better than budget. As a result, the Scheme's solvency ratio increased to 57.4% (2020: 52.6%), which is now more than twice the statutory requirement of 25%. The improved solvency ratio reflects the Scheme's strong claims paying ability. The Global Credit Rating Agency has, for the 15th consecutive year, awarded Medshield a AA- credit rating. This is the third highest rating in the industry.

The Board reviewed the results of the Council for Medical Schemes (CMS) investigation, and approved the corrective action plan prepared by Executive Management.

1.2 Scheme Annual General Meeting

The Scheme Annual General Meeting took place on 30 June 2021 in terms of Scheme rules and the sitting Board had its second AGM which was held virtually with a great deal of success. The Board adopted a resolution to reduce the number of trustees from eight to seven, with member participation increasing substantially. The Board is further strengthened by co-option of trustees of specialised skills at Board and Board-committee level. The elected Trustees serving on the Board continue to oversee the governance of the Scheme and dealing with many legacy issues emanating from the Council for Medical Scheme's regulatory inspection. This year's AGM proceeded as planned and learnings from conducting virtually and digitised processes were well executed.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

1 Review of 2021 (continued)

1.2 Scheme Annual General Meeting (continued)

The AGM was overseen by PwC in its capacity as the Independent Electoral Body and by BDO as the Electoral Auditor. The outcome of the meeting was successful with a high degree of participation from members in attendance.

1.3 Regulatory Matters

The Council for Medical Schemes (CMS) issued various Directives to the Scheme, directing the Scheme to proceed with a regulatory inspection into the corporate governance affairs of the Scheme for matters that ensued during 2016 and 2017, which concluded with an Inspection Report, following a forensic investigation. The findings emanating from this Report required further investigation and deliberation in the opinion of the CMS, requiring the Scheme to establish an Independent Committee. The Investigation Report released by the Independent Committee was concluded in December 2021. The Board has accepted the findings and has developed a timeline for implementation of a corrective action plan. The Board and Executive Management are fully committed to the implementation of appropriate mitigation plans to address the recommendations.

1.4 Principal Officer leaving employ of the Scheme

The Principal Officer left the employ of the Scheme on 14 December 2021, following the outcome of an internal disciplinary enquiry. The Principal Officer disputed the outcome of the enquiry and has raised the matter with CMS and lodged with the CCMA. Mr Alan Fritz has been appointed as Acting Principal Officer, effective 15 December 2021.

1.5 Fraud-related matters

a. Fraudulent Transaction Concerning Service Provider

The Scheme entered into a contractual agreement with a service provider to address its objectives relating to the B-BBEE strategy. On 28 December 2021, a payment of R1.29 million was made relating to this transaction and was subsequently identified as fraudulent due to e-mail phishing.

Upon further investigation, the service provider discovered that a senior leader's email was hacked by an impersonator who intercepted communication between the Scheme and the service provider. The impersonator proceeded to alter banking details on the documents supporting the payment, which resulted in the Scheme paying funds into a fraudulent account.

The Scheme recovered over R428 thousand of the amount paid from the financial institutions and paid that over to the service provider. The case opened by the Scheme is still under investigation by the SAPS.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

1 Review of 2021 (continued)

1.5 Fraud-related matters (continued)

b. Fraud Allegations - Member Refund Payments

The Scheme received allegations of suspected fraudulent activities concerning the member contributions and savings refund process. The Scheme appointed a service provider to investigate these allegations. Three staff members have been placed on precautionary suspension while the investigation unfolds.

2 Strategic Direction of the Scheme

The governance structures of the Scheme continued to function efficiently and effectively during the 2021 financial year, with the Board and various Committees executing and continuously monitoring and evaluating the work carried out by the Principal Officer and Executive Management Team. In November 2021, the Board held a strategic session with Executive Management to review the Scheme's progress against the strategic planning framework for the period 2021-2023, covering the following strategic pillars and enablers:

Strategic Pillars

1. Build a successful, sustainable business through an effective sales, marketing and distribution strategy for South Africa;
2. Develop an amalgamation, scheme administration and commercialisation strategy for key target markets;
3. Maintain a product portfolio that is competitive and reflects the needs of our target markets;
4. Implement a uniquely positioned Wellness Offering that will attract the corporate market;
5. A service provider strategy that ensures access to quality healthcare;
6. Optimise the service experience of members through an operational excellence strategy;
7. Develop the Scheme's strategy and position for growth; and
8. Develop a managed care strategy that will drive access to quality affordable healthcare.

Strategic Enablers

1. Entrench Medshield's ICT strategy as a leading capability in the healthcare insurance administration in the low-cost environment.
2. Develop a Human Capital Capability and Business Transformation Strategy that delivers on the skills requirements and work organization processes of the Scheme.
3. Develop and implement Risk Management Solutions in conjunction with servicing companies ensuring compliance with statutory requirements applicable to our business.
4. Develop financial performance measures that will enable the Scheme to drive down operational and non-healthcare costs.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

2 Strategic Direction of the Scheme (continued)

2.1 Membership Growth

2.1.1 New Business Development

In the tough economic environment, exacerbated by the COVID-19 pandemic, the Scheme did not meet its membership target and ended the year with 74 206 principal members, compared with 75 285 in 2020. During the year, the Scheme received 13 079 member terminations, which was partially offset by the 12 000 new members joining the Scheme. The net effect is that the Scheme recorded a decline in membership of 1 079 members (1 462 beneficiaries), which is a -1.4% (-1.0% beneficiaries) decline. While this is concerning, the Scheme is encouraged that the average age of new lives joining was 37.63 (2020: 39.40), which is lower than the existing average age of members, bringing the average age of principal members down to 50.65 in 2020. Year on year, this means the Scheme demographics are improving and was part of the better financial performance of the Scheme. The Scheme became an authorised Financial Service Provider (FSP) in May 2021; which unlocks opportunities for it to compete on an even playing field and better inform its members and potential members of the Scheme's benefits when compared to competitors.

2.1.2 Marketing and Communication

The overall brand equity study showed a positive result for Medshield given the return in Marketing expenditure indicator. The Brand Equity study provided insights about how the Medshield brand is perceived in the market with key recommendations for consideration into 2022. Medshield successfully launched the 2022 products and improved its value proposition. Brand awareness increased through various channels including TV coverage, extensive Public Relations to drive thought leadership and the Live Medshield Movement event in partnership with Pirates Running Club and Medshield partners. Kaizer Chiefs Football Club increased visibility to the Medshield brand through application of the Medshield CI on various channels. Social Media marketing in collaboration with Medshield Ambassadors and execution of various campaigns continued to drive followers, engagements and prospects in line with the set targets. Ongoing stakeholder engagement was executed through extensive communication updates on COVID-19 and quarterly newsletters. Implementation of Corporate Wellness days gained momentum following cancellation of events in Q3 due to the COVID-19 3rd wave and lockdown restrictions. A member campaign was implemented to promote use of the Medshield App and achieved positive results.

2.2 High-Performance Culture

As a self-administered scheme, Medshield employs more than 270 employees implementing a member centric service model. With the safety of its employees in mind, the Scheme implemented a Flexible Work Arrangement Policy limiting the number of employees in the office environment of the Scheme. As part of ensuring the safety and well-being of the employees the Scheme formulated and implemented a Covid and Vaccine policy. In compliance with the Employment Equity Act 55 of 1998, a three-year Employment Equity Plan was developed. Amidst of all the challenges that were encountered during this period, the Scheme managed to be certified once again as a Top Employer 2022 by the Top Employer Institute, recognising the Scheme's investment in world-class people practices, the second year running. As part of inculcating high-performance culture a Balanced Scorecard approach was introduced, including the Barret Culture Model to further imbed the values-based leadership within the Scheme.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

2 Strategic Direction of the Scheme (continued)

2.3 Organisational Efficiency

This strategic pillar is the basis on which the Scheme makes business decisions and reports on its activities. During the year, the Scheme invested in its IT infrastructure, improved IT security, and made enhancements to the digital tools to ensure business continuity and enable simpler and easier servicing for members. Technology has a major role to play in the healthcare sector and the Scheme is looking to enable more digital tools and service channels for its members, including Digital and Analytics strategies. Virtual consultations through the Medshield Member Application in partnership with Intercare were introduced in 2021.

2.4 Service Excellence

In 2021, the Scheme received its self-administration accreditation from the CMS. In addition, the Scheme was evaluated by SABS and was proudly re-certified for ISO 9001:2015 compliance. Furthermore, the Scheme launched a number of innovations to improve access for members to simplify their engagement with the Scheme and to help them navigate the South African healthcare system. The Treating Customer Fairly campaign was one of these initiatives.

2.5 Financial Sustainability & Governance

The objective of this strategic pillar is to control non-healthcare expenditure and ensure that members' funds are used prudently. The Chief Financial Officer oversees all financial matters, including financial transactions, investments and reporting.

In 2021, the Scheme budgeted for a deficit of R146.8m, mainly due to the significant reduction in healthcare expenditure arising from the COVID-19 impact. The Scheme recorded a surplus of R188.9m (R336m better than budget). This improved financial performance, together with the Scheme's high solvency ratio (57.4%), gives assurance to the members that the Scheme remains financially sustainable.

The non-healthcare expenditure (administration expenses and broker related services) was R38m better than budget, and as a proportion of gross contribution income (GCI), increased to 10.4% for the year under review (2020: 9.8%). This is slightly above the industry benchmark of around 10.0% for open schemes due to lower-than-expected contribution income.

Managing the non-healthcare expenditure continues to be a focus area for the Scheme. The Principal Officer and Executive Management remain committed to pursuing further efficiencies in managing this expenditure on an ongoing basis, while ensuring that members' expectations continue to be met.

The Scheme finalised the review of the Supply Chain Management Policy during the year. The control environment around procurement, payroll, financial accounting and statutory reporting continues to be strengthened and is further supported by complementary monitoring controls.

2.6 Efficient Clinical Risk Management

The claims loss ratio for the year under review (healthcare expenditure as a percentage of net contributions) increased to 87.8% (2020: 79.1%). Hospital, medical specialists and medicine claims continue to be the most significant segments of healthcare expenditure, accounting for 72.0% [Hospital: 37.5%; Specialists: 22.7%; Medicine: 11.8%] during 2021. Claims utilisation is expected to increase as a result of suppressed demand, especially elective surgical procedures during the COVID-19 lockdown period.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

2 Strategic Direction of the Scheme (continued)

2.6 Efficient Clinical Risk Management (continued)

During the course of the year, the Scheme was accredited as a Managed Care Organisation and is in the process of insourcing the Disease Management Programme. The COVID-19 related benefits launched in 2020 continued to be beneficial for the Scheme's members. These include telephonic and video consultations, medicine courier services, funding of COVID-19 testing, free trauma counselling and a free Smartcare WhatsApp Doctor service.

3 Looking forward

We expect that many of the challenges faced in 2021 will continue to be experienced in 2022, namely:

- a) A constrained economic environment, further placing strain on membership affordability, membership growth and retention;
- b) Continued impact of COVID-19 on the country and general expectations of disaster regulations to be lifted;
- c) Introduction of new regulations is expected to restore economic activity at a gradual pace; and
- d) Vaccine uptake has improved marginally, indicating ongoing vulnerability of South Africans to the pandemic and emerging new strains.

In November 2021, the Board held a strategic session with Executive Management to adjust the strategy for the 2022 period. Key elements of the strategy include:

- a) Driving a digital strategy through the introduction of new digital servicing omnichannel and the use of AI tools to service members, as well as enabling of virtual healthcare consultations via the mobile member app.
- b) Developing compelling value propositions, which include:
 - Launching a new hospital plan (MediSwift) in 2022;
 - Introducing a low-cost benefit option (LCBO) for uninsured members, regulations permitting; and
 - Leveraging partnerships with Kaizer Chiefs and Medshield ambassadors to strengthen the Scheme's brand equity.
- c) Working closely with regulators, with respect to:
 - Funding and rollout of the vaccine for members;
 - Engaging in new regulations such as NHI, the MSA Amendment Bill and the S59 enquiry; and
 - Leveraging BBBEE as a responsible growth driver for the Scheme.
- d) Drive membership growth:
 - Organically through Affinity Partnerships and the creation of a direct sales channel;
 - Inorganically through potential amalgamations.
- e) Lowering the cost of healthcare for our members by:
 - Continued focus on managed care initiatives that provide members with care that is clinically appropriate, evidence-based, cost-effective and with quality outcomes
 - Insourcing of managed care services as part of a phased approach of the Disease Managed Programme commencing with Diabetes Disease Management, which is the Scheme's significant strategic project for the next few years; and
 - Utilising Scheme reserves to subsidise annual contribution increases.

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BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

3 Looking forward (continued)

f) Strengthening governance through:

- Enhancing policies and improving processes;
- Developing managerial and technical skills, and;
- Continuing to strengthen the Scheme's controls environment, including internal and financial controls.

The Board places trust in Executive Management to respond to the upcoming challenges and to continue delivering value to members.

4 Sustainability and Going Concern

The Board of Trustees remains confident in the financial position of the Scheme, which as noted above, has been recognised by Global Credit Ratings Agency awarding the Scheme an AA- rating, with a stable outlook. The Scheme's solvency ratio at the end of the financial year was 57.4%, well above the statutory minimum of 25% as prescribed by the Act. This is an increase from 52.6% that was achieved in 2020.

5 Corporate Governance and Compliance

Internal reporting is validated through the Audit, Risk & Compliance Committee via its Terms of Reference.

The Scheme is committed to the principles and practice of fairness, independence, openness, integrity and accountability in all dealings with its stakeholders. The Scheme endeavours to adhere to all aspects of governance as required by the Medical Schemes Act 131 of 1998. The Scheme governance structure consists of the following areas:

- Strategic oversight: Board of Trustees
- Monitoring: Board Committees
- Functional oversight: Executive Management

The Board of Trustees continues to steer and monitor the Scheme's governance in accordance with King IV principles and carries out its responsibility to review the effectiveness the Schemes governance structures and policies, including annual evaluations of the Board and its Committees.

The Committees outlined below monitor the Scheme's operations on behalf of the Board and report quarterly or on an ad-hoc basis if necessary. The Committees do not assume the operational functions of Executive Management. Operations remain the responsibility of the Acting Principal Officer and the Executive Committee.

- Audit, Risk & Compliance Committee: Established in accordance with the provisions of the Act, as amended. The primary responsibility of the Committee is to assist the Board in carrying out its duties relating to the Scheme's accounting policies, internal control systems, risk management & compliance management and financial reporting practices. The Committee consists of four independent members and two trustees.

Other Committees which supported the Board with oversight monitoring are:

- Finance, Investments and Operations Committee;
- Human Capital and Remuneration Committee;
- Marketing, Product Review and Pricing Committee;
- Clinical Governance Committee; and
- Social, Legal, Ethics, Disputes & Governance Committee.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

5 Corporate Governance and Compliance (continued)

The Board continues to attend to various legal matters that were reported on in the previous financial year. A progress report on all legal and contractual matters is contained in section 6 below.

The Board of Trustees continues to monitor progress on these matters.

6 Legal and Contractual Matters

The Board of Trustees and the Principal Officer are committed to ensuring that all efforts are made to conclude all outstanding legal matters expeditiously, whilst protecting the rights and interests of the Scheme and its members. The Board of Trustees and the Principal Officer are currently attending to the following legal matters of material significance:

a. Medshield/Alumni Trading

The Scheme was successful in setting aside the trademark sale agreement with Alumni Trading. Alumni has been ordered to repay the R10 million with the awarded costs. A liquidation order was subsequently granted due to non-payment of the award in the prescribed period. An insolvency inquiry initiated indicated that the two majority shareholders of Alumni have left the country. Legal proceedings have been instituted with the view to recovering the costs of the suit and the costs of litigation awarded to the Scheme.

b. Medshield/Calabash Health Solutions (In liquidation) – claim against liquidators of Calabash, and Neels Barendrecht and 4 others

In March 2011, Medshield applied to the High Court on an ex parte basis, for leave to convene an insolvency enquiry into the affairs of Calabash. Medshield proved a claim for amounts totalling R39 million, at a special meeting of creditors in April 2011. The enquiry proceeded during 2011 and the evidence indicated the fraud had been perpetrated by the officers of Calabash and its group companies against Medshield. However, Medshield's claims against the insolvent estate of Calabash were expunged by the master of the High Court after objections were lodged against the claim, the Master directed Medshield to prove its claims by way of action. This resulted in the institution of the section 424 action against the five directors.

Medshield issued a combined summons against the liquidators of Calabash in order to establish its claims against the estate of Calabash by way of action. The liquidators indicated that they would not defend the action.

This liquidation action led to Medshield instituting in terms of Section 424 of the Companies Act, against the former directors of Calabash to hold them personally liable for the debts of Calabash. This matter is now subject to a financial assessment, on the assets that can be recovered from the directors and Calabash in liquidation, which is currently under review.

c. Medshield/Yarona Healthcare Network

Medshield issued summons against Yarona Healthcare Network in respect of approximately R6 million paid by Medshield to Yarona by the Scheme's former Principal Officer. A defence was raised that they had an agreement with the Scheme to provide GP network services and they also launched a counterclaim against the Scheme for approximately R2.5 million due to the Scheme's non-performance in terms of the alleged agreement. The Scheme launched a separation application, the existence of a contract being separated from the rest of the trial. At the time of trial on the separated issue, Yarona conceded the matter i.e. that no legally binding service agreement was concluded by the parties. The Scheme was awarded costs relating to the separated issue, including the cost of trial which was set down.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

6 Legal and Contractual Matters (continued)

c. Medshield / Yarona Healthcare Network (continued)

A demand for payment of the judgment debt and costs (inclusive of interest) in the amount of approximately R20.6 million, was issued to the defendant. Medshield was informed that their client will not be able to pay the amount as demanded as they do not have the resources to do so. They have further indicated that most of the directors have immigrated and that they have not had contact with them since 2016. Medshield then embarked on a Section 65 procedure (Section 65 of the Magistrates Court Act), to recover the costs of action from Yarona and its directors. This Section 65 process is currently underway in the Magistrates Court.

d. SAPS Commercial Affairs (Pty) Ltd/Medshield (65th Respondent)

South African Society for Physiotherapists, the Applicants in this action, are alleging that they are a representative body for physiotherapists in South Africa, issued a review in October 2021 seeking to have Section 59(3) of the Medical Schemes Act declared unconstitutional, invalid and to be set aside. SAPS are aggrieved by the manner in which they are paid by the medical scheme/administrators and the fact that an erroneous or fraudulent claim may be reversed and recovered by from the post-payment, therefore they are seeking declaratory order to have the section declared void from the MSA.

The Minister of Health, The Council for Medical Schemes and 80 other respondents comprising of medical scheme, administrators, and managed health care organizations, are cited as respondent in this application.

The Application is being opposed by the Scheme and the Scheme has adopted the approach to raise certain points in limine to the application in our defense of the matter and request security of costs.

e. Mable Mabunda/Medshield

The member issued summons against the Scheme for the failure to pay for the costs associated with her knee replacement procedure which she undertook prior to receiving the necessary pre-authorisation. The member underwent the procedure with the knowledge that the procedure had not been authorised by the Scheme and additional clinical information was requested. An exception was set down for hearing on 15 December 2021, and the Scheme was successful in arguing the defects of the member's summons. The member was granted 10 days to amend her particulars of claim which she has filed and to which the Scheme has pleaded.

7 Conclusion

The Board is satisfied that the Scheme has a robust three-year strategic framework. It is contributing in enabling the environment for implementing successfully, and ensuring that the objectives of the Scheme are being met. These objectives include keeping proper governance, risk management and compliance structures in place to ensure that the Scheme continues to operate in a financially sustainable manner and continues to meet and service the needs and expectations of its members.

The Scheme had a challenging year with regard to membership, but it has ended the year more financially sound than it started and continues to be able to meet its obligations. The Scheme is set to continue as a going concern for the foreseeable future. The Board is confident that under the leadership of the Acting Principal Officer and the Executive Management, the Scheme will continue to be sustainable and achieve its strategic objectives.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

8 Description of the Scheme

8.1 Terms of Registration

Registration number: 1140

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

8.2 Benefit options

The Scheme offers 10 benefit options to employers and members of the public, namely:

- MediValue Prime
- MediValue Compact (*efficiency discount option*)
- MediBonus
- MediPlus Prime
- MediPlus Compact (*efficiency discount option*)
- MediPhila
- MediSaver (*includes the provision of a Personal Medical Savings Account*)
- MediCore
- Premium Plus (*includes the provision of a Personal Medical Savings Account*)
- MediCurve

8.3 Personal Members' Savings Accounts (PMSA's)

Personal medical savings constitute trust monies and are managed on the members' behalf in terms of the Scheme rules. Savings contributions are refundable upon a member enrolling in another benefit option without a personal medical savings account or another option in another medical scheme without a personal medical savings account. In the event that a member does not enroll in another medical scheme, the accumulated unutilised personal medical savings account balance is transferred to the member in terms of the Medical Schemes Act.

Following the Constitutional Court ruling in the Genesis case, the Scheme changed the Scheme rules with regards to the treatment of savings monies. Effective 1 January 2018, the Scheme rules state that the savings monies shall be kept in a Scheme account as stipulated in the Medical Schemes Act and can be utilised to fund the general business activities of the Scheme. Interest earned will be credited to the Scheme and conversely, it will not be credited to members' savings accounts.

9 Risk Management

9.1 Risk Management Plan

Strategic risks are identified and placed on a risk register. The risks are rated, based on likelihood and impact on the Scheme and specific strategies or processes are put in place to deal with these risks. Medshield's Executive Management team updates the risk management plan on an ongoing basis to ensure that it is in line with the current risks of the Scheme.

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BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

9 Risk Management (continued)

9.2 Risk Transfer Arrangement

The Scheme had the following risk transfer arrangement during the year under review:

- Netcare 911 Emergency Medical Services

Netcare provides services which include emergency telephonic assistance via health-on-line, emergency response by road or air ambulance to the scene of an accident, as well as transfer of the beneficiary by road or air to the most appropriate medical facility.

9.3 Managed Care

The Scheme had the following accredited managed care arrangements during the year under review:

Domain	Service Provider
Hospital Benefit Management	- Medscheme Health Risk Solutions ("MHRS"), a division of Medscheme Holdings (Pty) Ltd
Pharmacy Benefit Management	- Mediscor PBM (Pty) Ltd
Dental Benefit Management	- Dental Information Systems (Pty) Ltd ("DENIS")
HIV / AIDS Disease Management	- LifeSense Disease Management (Pty) Ltd
Diabetes Management	- Centre for Diabetes and Endocrinology (Pty) Ltd
Oncology Benefit and Network Management	- Independent Clinical Oncology Network (Pty) Ltd ("ICON")

The Scheme had the following arrangements with other service providers during the year under review:

Domain	Service Provider
Optical Benefit Management	- Isoleso Optics (Pty) Ltd
GP Network Management	- The IPA Foundation
HIV / AIDS Medicine Benefit Management	- Pharmacy Direct (Pty) Ltd (Designated Pharmacy Provider)
Radiology and Pathology Claims Auditing	- Verirad (Pty) Ltd

9.4 Prescribed Minimum Benefits (PMBs)

The Scheme has a defined process in place whereby it analyses, verifies and adjudicates PMB claims prior to payment being affected in order to, as far as possible, prevent fraudulent and incorrectly coded claims from being paid.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

10 Management

10.1 Board of Trustees

Attendance to Board of Trustees meetings is included below:

Attendance by Elected Trustees:

Member Elected Trustees	Date of Appointment	Area of Expertise	05 Feb 2021*	10 Feb 2021*	04 Mar 2021*	19 Mar 2021	31 Mar 2021	14 Apr 2021*	22 Apr 2021	12 May 2021*	17 May 2021*	31 May 2021*	02 Jun 2021	09 Jul 2021*	14 Jul 2021*	19 Jul 2021*
Mr Andries Labuscagne (Chairperson)	30 September 2020	Finance, Legal & Management	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Ms Elizabeth Botha	30 September 2020	Finance & Human Capital	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Dr Zaheera Soni	30 September 2020	Medical	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mr Trevor Wiblin	30 September 2020	Finance & Management	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

Attendance by Elected Trustees continued:

Member Elected Trustees	Date of Appointment	Area of Expertise	22 Jul 2021*	28 Jul 2021*	06 Aug 2021*	25 Aug 2021	27 Sep 2021*	18 Oct 2021*	29 Oct 2021*	05 Nov 2021*	09 Nov 2021*	25 Nov 2021	14 Dec 2021*	17 Dec 2021*	21 Dec 2021*
Mr Andries Labuscagne (Chairperson)	30 September 2020	Finance, Legal & Management	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Ms Elizabeth Botha	30 September 2020	Finance & Human Capital	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Dr Zaheera Soni	30 September 2020	Medical	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mr Trevor Wiblin	30 September 2020	Finance & Management	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

* Special Board meeting

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

10 Management (continued)

10.1 Board of Trustees (continued)

Attendance to Board of Trustees meetings is included below:

Attendance by Co-opted Trustees:

Co-opted Trustees (appointed not elected)	Date of Appointment	Area of Expertise	05 Feb 2021*	10 Feb 2021*	04 Mar 2021*	03 Mar 2021*	31 Mar 2021	14 Apr 2021*	22 Apr 2021	12 May 2021*	17 May 2021*	31 May 2021*	02 Jun 2021	09 Jul 2021*	14 Jul 2021*	19 Jul 2021*
Dr Ritesh Nandkoomar	12 February 2021	Human Capital	N/A	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mr Leon de Lange	12 February 2018**	Legal	Y	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mrs Katlego Majola	12 February 2021	Audit Risk & Compliance	N/A	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Dr Jalaluddin Soni	12 February 2018**	Medical	Y	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr Mammule Chidi	30 November 2020***	Legal	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

Attendance by Co-opted Trustees continued:

Co-opted Trustees (appointed not elected)	Date of Appointment	Area of Expertise	22 Jul 2021*	28 Jul 2021*	06 Aug 2021*	25 Aug 2021	27 Sep 2021*	18 Oct 2021*	29 Oct 2021*	05 Nov 2021*	09 Nov 2021*	25 Nov 2021	14 Dec 2021*	17 Dec 2021*	21 Dec 2021*
Dr Ritesh Nandkoomar	12 February 2021	Human Capital	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mr Leon de Lange	12 February 2018**	Legal	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mrs Katlego Majola	12 February 2021	Audit Risk & Compliance	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Dr Jalaluddin Soni	12 February 2018**	Medical	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr Mammule Chidi	30 November 2020***	Legal	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

* Special Board meeting

** Mr L De Lange and Dr J Soni's terms ended on 11 Feb 2021.

*** Mr M Chidi's term should have ended on 11 February 2021 however, his term was ended on 29 November 2020 due to his re-appointment as co-opted Trustee effective 30 November 2020.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

10 Management (continued)

10.1 Board of Trustees (continued)

Scheme Secretariat

The Scheme has a Scheme Secretariat responsible for providing support and advice in relation to good governance to the Scheme and its committees.

10.2 Principal Officer

Mr Thoneshan Naidoo left employ of the Scheme effective 14 December 2021. Mr Alan Fritz was appointed as Acting Principal Officer by the Board of Trustees effective 15 December 2021.

10.3 The Registered Office of the Scheme is:

288 Kent Avenue PO Box 4346
Ferndale Randburg
Randburg 2125
2194

Country of registration and domicile: South Africa

CMS Accreditation number: 1140

10.4 Investment Fund Managers during the year:

Sanlam Investment Managers (Pty) Ltd
55 Willie Van Schoor Avenue Private Bag X8
Bellville Tyger Valley
7530 7536
Financial Services Provider number: 579

Allan Gray Life Limited
1 Silo Square PO Box 51318
V & A Waterfront Cape Town
Cape Town 8002
8001
Financial Services Provider number: 6663

Argon Asset Management (Pty) Ltd
1st Floor Colinton House, The Oval PO Box 23254
1 Oakdale Road Claremont
Newlands 7735
Cape Town
7700
Financial Services Provider number: 835

Prudential Portfolio Managers (South Africa) (Pty) Ltd (M&G Investments*)
5th Floor Protea Place PO Box 44813
40 Dreyer Street Claremont
Claremont 7735
Cape Town
7700

Financial Services Provider number: 45199

** effective 15 November 2021*

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

10 Management (continued)

10.4 Investment Fund Managers during the year (continued):

Stanlib Collective Investments (RF) (Pty) Ltd	
17 Melrose Boulevard	PO Box 202
Melrose Arch	Melrose Arch
2196	2076

10.5 Investment Consultants during the year:

Investec Wealth & Management - a division of	
100 Grayston Drive	PO Box 78055
Sandown	Sandton
Sandton	2146
2196	

10.6 Actuaries:

Insight Actuaries & Consultants (Pty) Ltd	
Ground Floor, Block J	Private Bag X17
Central Park	Halfway House
400, 16th Road	1685
Midrand	
1682	

10.7 Internal Auditors:

BDO Advisory Services (Pty) Ltd	Private Bag X5
1st Floor, Wanderers Office Park	Northlands
52 Corlett Drive	2116
Illovo	
2196	

10.8 External Auditors:

Deloitte & Touche
5 Magwa Crescent
Waterfall City
Gauteng
2090

11 Investment Strategy of the Scheme

The Scheme's long-term investments are spread across five portfolio managers. These portfolio managers complement each other in terms of the structure and nature of instruments held. The Scheme is invested in bonds, equities and cash instruments as well as linked insurance policies and pooled funds in diversified portfolios with a target return of CPI+4% over a three-year rolling period, consistent with the Scheme's investment strategy. This policy is reviewed annually, taking into consideration market conditions and compliance with the Medical Schemes Act. The Scheme also uses Stanlib Collective Investments to maximise the short-term funds with the view of maintaining liquidity and to be able to meet the day-to-day cash requirements of the Scheme.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

12 Committees

12.1 Audit, Risk & Compliance Committee

The Audit, Risk & Compliance Committee is mandated by the Scheme by means of Board approved terms of reference as to its membership, authority and duties. The Committee consists of six members, four of whom are independent and not officers of the Scheme (including the Chairperson).

During the course of the year, the Committee undertook the following functions under the terms of reference mandated by the Board of Trustees which stipulate the following:

- To assist the Board of Trustees in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems, and auditing processes applied by the Scheme or its administrator in the day-to-day management of its business;
- To facilitate and promote communication and liaison regarding the matters referred to above or a related matter, between the Board, Principal Officer and Executive Management of the Scheme;
- To recommend the introduction of measures which the Committee believes may enhance the credibility and objectivity of financial statements and reports concerning the Scheme;
- To advise on any matter referred to the Committee by the Board of Trustees.
- Oversight over the internal and external auditors, including their appointments, fees, plans and performances; and
- Oversight over the risk management, governance and compliance processes.

The Audit, Risk and Compliance Committee comprised:

- Independent: J. Maboja (Chairperson) (Appointed, effective 01 July 2020)
- Independent: L. Mothae (Appointed, effective 07 August 2020)
- Independent: M. Matlwa (Appointed, effective 07 August 2020)
- Independent: R. Gajjar (Appointed, effective 01 July 2019)
- Trustee: K. Majola (Appointed, effective 12 February 2021)
- Trustee: T. Wiblin (Appointed, effective 20 October 2020)

Audit, Risk & Compliance Committee meeting attendance:

Member	24 Mar 2021	15 Apr 2021	31 May 2021*	29 Jul 2021	16 Nov 2021
J. Maboja (Chairperson)	Y	Y	N	Y	Y
L. Mothae	Y	Y	Y	Y	Y
M. Matlwa	Y	Y	Y	Y	Y
R. Gajjar	Y	Y	Y	Y	Y
K. Majola	Y	Y	Y	Y	Y
T. Wiblin	Y	Y	Y	Y	Y

* Special Committee meeting

The Principal Officer, Executive: Operations, Chief Financial Officer and Audit, Risk & Compliance Manager of the Scheme, as well as the Internal and External Auditors, are invited to attend all Audit, Risk and Compliance Committee meetings of the Scheme and have unrestricted access to the Chairperson of the Committee.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

12 Committees (continued)

12.2 Clinical Governance Committee

The Clinical Governance Committee is accountable to the Board for ensuring that there are effective governance systems to safeguard and improve the quality and safety of clinical care provided to the members.

The Clinical Governance Committee comprised:

- a. Independent: Dr A. Good (Chairperson) (Appointed, effective 14 March 2019)
- b. Trustee: Dr Z. Soni (Appointed, effective 20 October 2020)
- c. Trustee: Dr J. Soni (Appointed effective 14 March 2018 and term ended 11 February 2021)
- d. Trustee: L. de Lange (Appointed effective 14 March 2018 and term ended 11 February 2021)
- e. Independent: J. Moselehi (Appointed, effective 01 January 2020)
- f. Trustee: M. Chidi (Appointed, effective 01 April 2021)
- g. Trustee: Dr R. Nandkoomar (Appointed, effective 12 February 2021 and term ended 31 March 2021)**

** Due to Dr R. Nandkoomar's period of service on this Committee falling between the meetings held on 10 February 2021 and 19 May 2021, his name is not reflected on the meeting attendance table.

Clinical Governance Committee meeting attendance:

Member	10 Feb 2021	19 May 2021	03 Aug 2021*	11 Aug 2021	04 Nov 2021
Dr A. Good (Chairperson)	Y	Y	Y	Y	Y
Dr Z. Soni	Y	Y	Y	N	Y
Dr J. Soni	Y	N/A	N/A	N/A	N/A
L. de Lange	Y	N/A	N/A	N/A	N/A
J. Moselehi	Y	Y	Y	Y	Y
M. Chidi	N	Y	Y	Y	Y

* The meeting of 03 August 2021 was a joint Marketing and Clinical Governance meeting.

12.3 Human Capital & Remuneration Committee

The Human Capital & Remuneration Committee is accountable to the Board; and authorised to take such steps as are in its opinion appropriate and reasonable to give effect to the Scheme's remuneration policies (including Trustee remuneration) and strategies determined by the Board, subject to such conditions as may be imposed by the Board from time to time.

The Human Capital & Remuneration Committee comprised:

- a. Independent: P. Marais (Chairperson) (Appointed, effective 01 January 2020)
- b. Trustee: R. Nandkoomar (Appointed, effective 01 April 2021)
- c. Trustee: E. Botha (Appointed, effective 20 October 2020)
- d. Independent: M. Melville (Appointed, effective 14 March 2019)
- e. Trustee: M. Chidi (Appointed, effective 14 March 2018 and term ended 31 March 2021)

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

12 Committees (continued)

12.3 Human Capital & Remuneration Committee (continued)

HC & Remuneration Committee meeting attendance:

Member	25 Jan 2021*	16 Feb 2021	25 Mar 2021*	11 May 2021	26 May 2021*	28 May 2021*
P. Marais (Chairperson)	Y	Y	Y	Y	Y	Y
R. Nandkoomar	N/A	N/A	N/A	Y	Y	Y
E. Botha	Y	Y	Y	Y	Y	Y
M. Melville	Y	Y	Y	Y	Y	Y
M. Chidi	Y	Y	Y	N/A	N/A	N/A

HC & Remuneration Committee meeting attendance (continued):

Member	13 Jul 2021*	19 Jul 2021*	27 Jul 2021	02 Nov 2021
P. Marais (Chairperson)	Y	Y	Y	Y
R. Nandkoomar	Y	Y	Y	Y
E. Botha	Y	Y	Y	Y
M. Melville	Y	Y	Y	Y
M. Chidi	N/A	N/A	N/A	N/A

* Special Committee meeting

12.4 Marketing, Product Review & Pricing Committee

The Marketing, Product Review & Pricing Committee is tasked with assisting the Board in discharging its duties specifically on issues related to product design, pricing, marketing and new business.

The Marketing, Product Review & Pricing Committee comprised:

- Trustee: E. Botha (Chairperson) (Appointed, effective 20 October 2020)
- Trustee: R. Nandkoomar (Appointed, effective 12 February 2021)
- Trustee: M. Chidi (Appointed, effective 14 March 2018 and term ended 11 February 2021)
- Independent: S. Burger (Appointed, effective 05 February 2021)

Marketing, Product Review & Pricing Committee meeting attendance:

Member	23 Feb 2021	13 May 2021	03 Aug 2021*	05 Aug 2021	15 Nov 2021
E. Botha (Chairperson)	Y	Y	Y	Y	Y
R. Nandkoomar	Y	Y	Y	Y	Y
S. Burger	Y	Y	Y	Y	Y

* The meeting of 03 August 2021 was a joint Marketing and Clinical Governance meeting.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

12 Committees (continued)

12.5 Finance, Investment & Operations Committee

The Finance, Investments & Operations Committee is a Committee of the Board of Trustees (BoT), accountable to the BoT, tasked with assisting the BoT in fulfilling its oversight responsibility in matters relating to the Scheme's finances, investments and operations, including operational arrangements with third party service providers.

The Finance, Investment & Operations Committee comprised:

- Trustee: K. Majola (Chairperson) (Appointed, effective 12 February 2021)
- Trustee: T. Wiblin (Appointed, effective 20 October 2020)
- Independent: Z. Samsam (Appointed, effective 01 February 2021)

Finance, Investment & Operations Committee meeting attendance:

Member	25 Feb 2021	25 May 2021	17 Aug 2021	11 Nov 2021	01 Dec 2021*
K. Majola (Chairperson)	Y	Y	Y	Y	Y
T. Wiblin	Y	Y	Y	Y	Y
Z. Samsam	Y	Y	Y	Y	Y

* Special Committee meeting

12.6 Social, Legal, Ethics, Disputes & Governance Committee (SLEDG)

The Social, Legal, Ethics, Disputes & Governance Committee has, amongst its purposes, to serve as an adjudication body over cases that would have been referred to it by the Executive Committee or its Committee tasked with receiving and adjudicating complaints, grievances and disputes brought to its attention by members of the Scheme, the Council for Medical Schemes (CMS) or any other person or body aggrieved in its dealings with the Scheme or its service providers.

The SLEDG Committee comprised:

- Independent: J. Mosetlhi (Chairperson) (Appointed, effective 01 February 2021)
- Independent: M. Arnold (Appointed, effective 01 January 2020)
- Trustee: Dr Z. Soni (Appointed, effective 20 October 2020)
- Trustee: M. Chidi (Appointed, effective 12 February 2021)
- Trustee: L. De Lange (Appointed 14 March 2018 and term ended 11 February 2021)

SLEDG Committee meeting attendance:

Member	03 Feb 2021*	18 Feb 2021	05 May 2021	23 Jul 2021	06 Sep 2021*	27 Oct 2021
J. Mosetlhi (Chairperson)	Y	Y	Y	Y	Y	Y
M. Arnold	Y	N	Y	Y	Y	Y
Dr Z. Soni	Y	Y	Y	Y	Y	Y
M. Chidi	N/A	Y	Y	Y	Y	Y
L. de Lange	Y	N/A	N/A	N/A	N/A	N/A

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

13 Quantitative review of activities

The 2021 quantitative ratios and statistics below reflect the overview of the Scheme's performance at option and consolidated levels.

2021	MediPlus Prime	MediPlus Compact*	MediValue Prime	MediValue Compact*	MediBonus	MediPhila	MediCore	MediSaver	Premium Plus	MediCurve	Total
Number of members at end of accounting year (n)	17 462	589	28 996	4 732	2 400	9 767	3 652	4 589	1 642	377	74 206
Average number of members for the accounting year (n)	18 092	599	29 998	4 191	2 518	8 952	3 807	4 751	1 715	127	74 749
Pensioner ratio (beneficiaries >65 years)	11.36%	20.60%	4.87%	4.43%	24.45%	2.76%	28.49%	25.53%	39.87%	5.56%	9.77%
Number of beneficiaries	36 739	1 262	58 318	10 553	4 167	19 721	7 221	8 419	2 681	432	149 513
Average age of members	56.81	60.66	45.46	42.55	63.69	40.11	66.41	64.21	70.13	38.51	50.65
Average net contributions per member per month	5 402	5 034	3 223	3 027	8 388	2 129	4 725	4 662	7 216	1 601	4 054
Average net contributions per beneficiary per month	2 555	2 333	1 626	1 355	4 782	1 063	2 357	2 520	4 383	1 386	2 019
Average net claims incurred per member per month	4 744	6 968	2 647	2 912	7 791	1 861	4 213	4 187	7 127	698	3 560
Average net claims incurred per beneficiary per month	2 244	3 229	1 336	1 304	4 441	929	2 102	2 264	4 329	604	1 773
Average non-healthcare expenses per member per month	441	441	441	441	441	441	441	441	441	441	441
Average non-healthcare expenses per beneficiary per month	220	220	220	220	220	220	220	220	220	220	220
Average accumulated funds per member at 31 December	27 010	27 010	27 010	27 010	27 010	27 010	27 010	27 010	27 010	27 010	27 010
Beneficiaries per member at 31 December	1.10	1.14	1.01	1.23	0.74	1.02	0.98	0.83	0.63	0.15	1.01
Net claims as percentage of net contribution	88%	137%	83%	101%	93%	90%	92%	90%	103%	40%	89%
Non-healthcare expenses as percentage of net contributions	8%	9%	14%	15%	5%	20%	11%	8%	6%	26%	11%

* MediPlus Compact & MediValue Compact are efficiency discount options

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

13 Quantitative review of activities

The 2020 quantitative ratios and statistics below reflect the overview of the Scheme's performance at option and consolidated levels.

2020	MediPlus Prime	MediPlus Compact*	MediValue Prime	MediValue Compact*	MediBonus	MediPhila	MediCore	MediSaver	Premium Plus	Total
Number of members at end of accounting year (n)	19 301	450	30 496	3 099	2 826	8 078	4 064	5 107	1 864	75 285
Average number of members for the accounting year (n)	20 139	445	32 165	2 539	2 965	7 400	4 233	5 312	1 948	77 146
Pensioner ratio (beneficiaries >65 years)	10.2%	19.2%	4.6%	4.7%	22.5%	2.6%	26.6%	24.1%	38.9%	9.7%
Number of beneficiaries	41 174	998	60 001	6 913	5 038	15 928	8 280	9 565	3 078	150 975
Average age of members	55.93	60.00	44.63	42.55	62.9	39.41	65.55	63.38	69.67	50.68
Average net contributions per member per month	5 279	4 705	2 924	2 998	7 969	2 041	4 475	4 420	6 783	3 946
Average net contributions per beneficiary per month	2 450	2 104	1 503	1 336	4 435	1 037	2 182	2 343	4 082	1 971
Average net claims incurred per member per month	4 111	6 332	2 308	2 550	6 441	1 420	3 676	3 350	5 962	3 123
Average net claims incurred per beneficiary per month	1 908	2 832	1 187	1 136	3 585	722	1 792	1 776	3 588	1 560
Average non-healthcare expenses per member per month	396	396	396	396	396	396	396	396	396	396
Average non-healthcare expenses per beneficiary per month	198	198	198	198	198	198	198	198	198	198
Average accumulated funds per member at 31 December	25 442	25 442	25 442	25 442	25 442	25 442	25 442	25 442	25 442	25 442
Beneficiaries per member at 31 December	1.13	1.22	0.97	1.23	0.78	0.97	1.04	0.87	0.65	1.01
Net claims as percentage of net contribution	77.9%	134.6%	78.9%	85.1%	80.8%	69.6%	82.1%	75.8%	87.9%	79.1%
Non-healthcare expenses as percentage of net contributions	7.8%	8.7%	13.4%	13.1%	5.2%	18.1%	8.3%	8.7%	5.4%	10.0%

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

14 Result of Operations

The results of the Scheme are set out in the Annual Financial Statements. The Scheme is in a sound financial position and during the year there were no changes to operations in terms of the raising and collection of contributions and the assessment and payment of claims.

15 Accumulated Funds Ratio (Solvency Ratio)

	2021 R'000	2020 R'000
Total members' funds per the statement of financial position	2 350 484	2 019 761
Less:	(216 865)	(52 566)
Investment reserves	(165 358)	(56 984)
Unrealised losses / (gains) on financial assets fair valued through profit & loss	(51 507)	5 081
Accounts held in escrow	-	(663)
Accumulated funds per Regulation 30	2 133 619	1 967 195
Gross Contributions	3 717 622	3 740 545
Accumulated funds ratio (including savings contributions)	57.4%	52.6%
Accumulated funds ratio (excluding savings contributions)	58.7%	53.9%

Movements in the reserves are set out in the statement of changes in funds and reserves in the Annual Financial Statements. The increase in the solvency ratio year-on-year is mainly attributable to COVID-19 and better management of non-healthcare expenditure by the Scheme in 2021. Furthermore, the Scheme utilised reserves on a planned basis to reduce the impact of contribution increases.

16 Outstanding Claims

Movements in the outstanding claims provision are set out in Note 7 to the Annual Financial Statements. The significant increase on this provision from prior year is due to claims submitted by the National Department of Health (NDoH) for COVID-19 vaccination claims for the first time since the roll-out of the vaccination program. The Council for Medical Scheme issued Circular 55 of 2021: Exemption for late COVID-19 vaccine claims, which exempts the National Department of Health from submitting claims within 120 days as required by regulation 6(1) and (2) of the Medical Schemes Act.

17 Actuarial Services

The Scheme's actuaries have been consulted and their inputs relied upon in the determination of the contribution and benefit levels and in the calculation of the outstanding claims provision of the Scheme ("IBNR").

18 Non-Compliance with the Medical Schemes Act and Regulations

18.1 Contributions Not Received Within the Time Stipulated By The Act

Nature of the non-compliance

Section 26(7) of the Act states that: All subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becomes due.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

18 Non-Compliance with Medical Schemes Act and Regulations (continued)

18.1 Contributions Not Received Within the Time Stipulated By The Act (continued)

Impact

Risk of paying claims where no contributions were received or possible bad debts as a result of not collecting the contributions on time.

Cause of the non-compliance

There were some instances noted where the contributions were not received within three days of becoming due.

Corrective course of action

Strict credit control procedures are in place to prevent loss to the Scheme. Members and employers are continuously reminded via sms and email to submit payment. Non-payment will result in the suspension of the account and no claims are paid until the account is brought up to date.

18.2 Loss Making Options

Nature of the non-compliance

Section 33(2) of the Act states: The Registrar shall not approve any benefit option under this section unless the Council is satisfied that such benefit option -

- a. includes the prescribed benefits;*
- b. shall be self-supporting in terms of membership and financial performance;*
- c. is financially sound; and*
- d. will not jeopardise the financial soundness of any existing benefit option within the medical scheme.*

Five of the Scheme's options incurred a net healthcare result deficit.

Impact

Benefit options will not be self-sustainable.

Cause of the non-compliance

The two efficiency discount options, MediPlus Compact and MediValue Compact, were introduced in 2020 at a low contribution rate, which resulted in a net healthcare result deficit from the prior year. This trend has continued in the current year with the addition of the MediPhila, MediCore and Premium Plus options reporting a deficit net healthcare result. This is mainly due to the actual membership numbers not being as high as budgeted therefore resulting in lower contribution income for these options compared to the higher claims ratios.

Corrective course of action

The Scheme, in conjunction with the Scheme's actuaries, constantly reviews the performance of these options, and after taking all factors into consideration, contributions and benefits are adjusted accordingly on an annual basis in the normal course of business. Furthermore, the Scheme undertook a review in early 2019 to specifically address Scheme sustainability and a significant part of this encompassed loss-making options and effective management of healthcare expenditure. The Scheme intends to achieve option self-sustainability in the medium term as per the Scheme's 5-year sustainability plan.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

18 Non-Compliance with Medical Schemes Act and Regulations (continued)

18.3 Direct Or Indirect Investments In Other Medical Scheme Administration Companies & Participating Employers

Nature of the non-compliance

Section 35(8) of the Act states – A Medical Scheme shall not invest any of its assets in the business of any other medical scheme or administrator or employer who participates in the medical scheme.

Impact

Direct equity investment holdings in holding companies of medical scheme administrators.

Cause of the non-compliance

This is as a result of the mandate given to the asset managers by the Scheme, who have the discretion to invest in any approved instrument, in terms of Regulation 30.

Corrective course of action

The Scheme has obtained exemption from the Council for Medical Schemes for this non-compliance. This exemption expires on 30 November 2022.

18.4 Claims payments made in excess of 30 days since receipt thereof

Nature of the non-compliance

Section 59(2) of the Act states: A medical scheme shall, in the case where an account has been rendered, subject to the provisions of this Act and the rules of the medical scheme concerned, pay to a member or a supplier of service, any benefit owing to that member or supplier of service within 30 days after the day on which the claim in respect of such benefit was received by the medical scheme.

Impact

Members might be charged interest on the late payment of accounts by the healthcare professionals.

Cause of the non-compliance

These instances mainly arise due to queries on the accounts submitted and further investigation is required before claims are processed. In these exceptional cases claims were paid later than 30 days after date of submission. However, there are two main process issues that will arise every year; firstly, PMB claim reversals and corrections will always breach 30 days because of the nature of the claim and secondly, there are technical system issues which result in development. This leads to claims being put on hold until the development is implemented, leading to certain claims breaching the 30-day payment requirement.

Corrective course of action

The Scheme has an adequate process in place to ensure adequate assessment and authorisation of these claims.

18.5 Encumbered Assets

Nature of the non-compliance

Section 35(6) of the Act states: A Medical Scheme shall not encumber its assets.

Impact

Cash and cash equivalents are encumbered as guarantees in respect of the deposit made to the South African Post Office (SAPO) and Yieldex Trading (Pty) Ltd.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

18 Non-Compliance with Medical Schemes Act and Regulations (continued)

18.5 Encumbered Assets (continued)

Cause of the non-compliance

The deposit was required by the South African Post Office in order to conduct business with them. Yieldex (Pty) Ltd required the guarantee in terms of their standard contract.

Corrective course of action

The Scheme has obtained exemption from the Council for Medical Schemes for this non-compliance. This exemption expires on 04 November 2023.

18.6 Netcare 911 capitation agreement for the provision of emergency medical services

Nature of the non-compliance

Regulation 7 defines a Designated Service Provider ("DSP") and Prescribed Minimum Benefits ("PMBs"):

Designated Service Provider means a health care provider or a group of providers selected by the medical scheme concerned as the provider or providers to provide its members' diagnosis, treatment and care in respect of one or more prescribed benefit conditions;

Prescribed Minimum Benefit (PMB) condition means a condition contemplated in the Diagnosis and Treatment Pairs listed in Annexure A or any emergency medical condition;

Section 15A (1) If a medical scheme provides benefits to its beneficiaries by means of a managed health care arrangement with another person -

- a. the terms of that arrangement must be clearly set out in a written contract between parties;
- b. with effect from 1 January 2004, such arrangement must be with a person who has been granted accreditation as a managed health care organisation by the Council; and
- c. such arrangement must not absolve a medical scheme from its responsibility towards its members if any other party to the arrangement is in default with regard to the provisions of any service in terms of such agreement.

Impact

On or about June 2015, the Scheme entered into a contract with Netcare 911 for the provision of emergency medical services based on a capitated arrangement and in terms of the agreement Netcare was appointed as a DSP of the Scheme. This contract expired on 31 December 2017. CMS issued a ruling on 22 December 2017 whereby the agreement is sanctioned (not valid) by regulation 8 and 15F of the Act.

Cause of the non-compliance

Netcare 911 is not accredited and therefore cannot be appointed as a DSP under a capitation agreement. The capitation agreement transfers the risk to the service provider which should only occur with a managed healthcare organisation that is accredited by the Council.

Corrective course of action

The Scheme acknowledged the Registrar's ruling and informed CMS that it would abide by it. The Scheme engaged with the CMS with regard to the matter and a way forward is being determined on how the Scheme will implement business process changes to ensure compliance with the Act going forward. The Scheme is currently contracted with Netcare 911 on a month-to-month basis, while a new arrangement is being formulated.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

18 Non-Compliance with Medical Schemes Act and Regulations (continued)

18.7 Contingent fee-based arrangements

Nature of the non-compliance

Section 26(5) of the Act states – No payment in whatever form shall be made by a medical scheme directly or indirectly to any person as a dividend, rebate or bonus of any kind whatsoever.

Impact

The Scheme has paid Medscheme Holdings (Pty) Ltd (Medscheme) recovery fees of R4 006 367 since inception of the contract, commencing 01 January 2019.

Cause of the non-compliance

The Scheme received a letter from the Council of Medical Schemes on 2 July 2020, where they made certain enquiries and concluded that clause 3 of Annexure "B" of the contract, which provides for additional payments to Medscheme by Medshield in the following terms, contravenes S26(5).

Clause 3 of Annexure "B" of the contract provides for additional payments in the following terms: *"In addition, Medshield shall pay Medscheme a quarterly incentive fee of 25% excluding VAT for all successful recoveries performed on behalf of the Scheme."*

The Council goes on to state "It is our view that clause 3 payments constitute a form of a bonus".

Corrective course of action

In 2020, the Scheme obtained legal opinion and is appealing the Council's ruling. At date of reporting, the Council for Medical Schemes has not confirmed the date for the Section 49 hearing and therefore the matter is held in abeyance. The Scheme has, irrespective, resolved not to enter into any further contracts with contingent fee-based arrangements.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2021

19 Events After the Reporting Period

Economic impact of the Russian-Ukrainian conflict

Political and Economic experts have warned that the current crisis between Russia and Ukraine could increase hunger and food insecurity for already impoverished communities across Africa. Most African countries, including South Africa, import wheat, vegetable oil, and other consumer products from Ukraine and Russia, a region now engulfed in conflict since Russia's invasion of Ukraine. Our country's net imports from Ukraine amongst others include cereals, machinery, nuclear reactors, boilers, milling products, malts, starches, wheat and vegetable oils, amounting to an estimated \$24 million US Dollars. This is a clear indication that food security, power supply and manufacturing products will detrimentally affect the South African economy, which is in an already desperate need of restructuring and direct foreign investment. Russian and Ukrainian wheat, sunflower oil, and allied products has been supplied to the South African market since the dawn of democracy and establishment of these trade deals. South African crude oil and gas imports are affected to a lesser extent, as both countries are not dominant suppliers to our country, however the monetary implications of the supply shortage to meet global demands will impact the value of these products within South Africa.

In consultation with sector leader and experts, the Scheme is monitoring and considering the potential impact of the Russia/Ukraine conflict and consequences to the South African economy, in addition to developments in respect of mutations of the Corona virus. All healthcare funders in South Africa will have to consider the impact of this on its members. This is a non-adjusting event in the annual financial statements of the Scheme.

Chief Financial Officer leaving employ of the Scheme

The Chief Financial Officer (CFO) and the Scheme have mutually agreed to terminate the CFO's employment with the Scheme, effective 28 February 2022. At reporting date, Ms Wendy Nkambule served as the Acting CFO.

Head Office Relocation

On 18 March 2022, the Board approved the relocation of the Scheme's Head Office from 288 Kent Avenue, Randburg, to 192 on Bram situated at 192 Bram Fischer Drive, Ferndale. The Scheme has signed a 5-year lease with Investec Property Fund Limited (the Landlord), effective 01 July 2022 in this regard.

Other Events

No other events have occurred subsequent to the financial year-end that materially affected the Annual Financial Statements that the Board of Trustees believe should be brought to the attention of the members of the Scheme.

20 Investments in and Loans to Employers of Members of the Scheme and to Other Related Parties

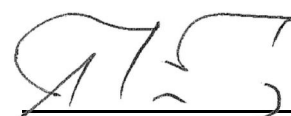
The Scheme holds no investments in, nor has it made loans to, members or other related parties.



Mr Andries Labuscagne
Chairperson: Board of Trustees



Mr Mammule Chidi
Deputy Chairperson: Board of
Trustees



Mr Alan Fritz
Acting Principal Officer

28 April 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MEDSHIELD MEDICAL SCHEME

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Medshield Medical Scheme (the "Scheme") set out on pages 36 to 93, which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, the statement of changes in funds and reserves and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Medshield Medical Scheme as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

Basis for Opinion

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

Key Audit Matter

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



National Executive: *LL Bam Chief Executive Officer *R Redfearn Chief Executive Officer - Elect *TMM Jordan Deputy Chief Executive Officer; Clients & Industries *MJ Jarvis Chief Operating Officer; Acting Tax & Legal *AF Mackie Audit & Assurance *MR Verster Consulting *TA Odukoya Financial Advisory *N Sing Risk Advisory *JK Mazzocco People & Purpose MG Dicks Risk Independence & Legal *A Muraya Responsible Business & Public Policy DP Ndlovu Chair of the Board

A full list of partners and directors is available on request * Partner and Registered Auditor

B-BBEE rating: Level 1 contribution in terms of the DTI Generic Scorecard as per the amended Codes of Good Practice

Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

Key Audit Matter	How the matter was addressed in the audit
<p data-bbox="164 253 475 282">Outstanding claims provision</p>	
<p data-bbox="164 286 786 539">As disclosed in note 7, the carrying amount of the Outstanding Claims Provision (“IBNR”) at year end was R219 000 000 (2020: R175 000 000). The determination of the IBNR requires the Scheme’s Trustees to make assumptions in the valuation thereof, which is determined with reference to an estimation of the ultimate cost of settling all claims incurred but not yet reported as at 31 December 2021</p>	<p data-bbox="818 286 1425 443">We obtained an understanding from the Scheme’s actuaries regarding the process to calculate the Outstanding Claims Provision. The actuarial method applied by the Scheme is generally applied within the medical schemes industry.</p>
<p data-bbox="164 577 786 640">The IBNR calculation is based on a number of factors which include:</p> <ul data-bbox="164 645 786 1003" style="list-style-type: none"> • Previous experience in claims patterns; • Claims settlement patterns; • Changes in the nature and number of members according to gender and age; • Trends in claims frequency; • Changes in the claims processing cycle; • Variations in the nature and average cost per claim; and • Other factors such as expectations of future events that are believed to be reasonable to be taken into account in the valuation of the IBNR at year end. 	<p data-bbox="818 481 1425 577">In evaluating the valuation of the IBNR, we audited the calculations approved by the Board of Trustees and performed various procedures including the following:</p> <ul data-bbox="818 582 1425 1384" style="list-style-type: none"> • Assessed the design and implementation of key controls within the IBNR process; • Obtained an understanding of the IBNR provision process and policies; • Tested the completeness and accuracy of the data used in the calculation of the IBNR by performing substantive procedures; • Performing tests of detail on the current year IBNR including testing actual claims experienced subsequent to year end and as close as possible to audit completion date; • Engaged our internal actuarial specialists to perform an independent calculation of the estimate of the provision using historical claims data and trends, and using this estimate as a basis of assessing the reasonableness of the Scheme’s estimate of the provision have been calculated; • Performed a retrospective review of the IBNR raised in the 2020 financial year based on actual claims paid in 2021 to verify the assumptions applied to determine the IBNR is reasonable; and • Assessed the presentation and disclosure in respect of the IBNR and considered whether the disclosures reflect the risks inherent in the accounting for the IBNR.
<p data-bbox="164 1041 786 1198">Certain of the abovementioned factors require judgement and assumptions to be made by the Scheme’s Trustees and therefore accordingly, for the purposes of our audit, we identified the valuation of the IBNR as representing a key audit matter.</p>	<p data-bbox="818 1422 1425 1574">The assumptions applied in the IBNR are appropriate and we are satisfied that the movement of the IBNR in the Statement of Comprehensive Income and the related disclosure of the IBNR balance and assumptions are appropriate.</p>

Other Information

The Scheme's Trustees are responsible for the other information. The other information comprises the information included in the document titled "Medshield Medical Scheme Annual Financial Statements for the year ended 31 December 2021" which includes the Statement of Responsibility by the Board of Trustees, Statement of Corporate Governance by the Board of Trustees and the Board of Trustees Report. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Scheme's Trustees for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Scheme's Trustees.
- Conclude on the appropriateness of the Trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the Scheme's Trustees with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

Non-Compliance with the Medical Schemes Act of South Africa

As required by the Council for Medical Schemes, we report that no material instance of non-compliance with the requirements of the Medical Schemes Act of South Africa, have come to our attention during the course of the audit:

Audit tenure

As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that Deloitte & Touche has been the auditor of Medshield Medical Scheme for 1 year.

The engagement partner, Nomfundo Marivha, has been responsible for Medshield Medical Scheme's audit for 1 year.



Deloitte & Touche

Registered Auditors

Per: Nomfundo Marivha

Partner

30 April 2022

5 Magwa Crescent
Waterfall City
2090

MEDSHIELD MEDICAL SCHEME

STATEMENT OF FINANCIAL POSITION

as at 31 December 2021

	Note	2021 R'000	2020 R'000
ASSETS			
Non-current assets		599 622	603 756
Property, plant and equipment	2	2 436	5 212
Right-of-use assets	3	16 158	17 346
Financial assets		581 028	581 198
- Fair value through other comprehensive income	4	581 028	581 198
Current assets		2 314 819	1 944 525
Financial assets		2 135 071	1 664 546
- Fair value through other comprehensive income	4	1 178 218	864 152
- Fair value through profit or loss	4	956 853	800 394
Trade and other receivables	5	24 732	31 772
Cash and cash equivalents	6	155 016	248 207
Total assets		2 914 441	2 548 281
FUNDS AND LIABILITIES			
Members' funds		2 350 484	2 019 761
Accumulated funds		2 185 126	1 962 777
Investment reserves		165 358	56 984
- Fair value through OCI reserve - debt		45 959	38 175
- Fair value through OCI reserve - equity		119 399	18 809
Non-current liabilities			
Lease liabilities	3	544	1 231
Current liabilities		563 413	527 289
Lease liabilities	3	19 662	19 841
Outstanding claims provision	7	219 000	175 000
Personal medical savings account trust liability	8	159 507	164 993
Trade and other payables	9	165 244	167 455
Total funds and liabilities		2 914 441	2 548 281

MEDSHIELD MEDICAL SCHEME

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2021

	Note	2021 R'000	2020 R'000
Risk contribution income	10	3 635 936	3 653 013
Relevant healthcare expenditure		(3 231 637)	(2 890 753)
Net claims incurred	11	(3 177 088)	(2 830 954)
Risk claims incurred		(3 185 504)	(2 840 103)
Third party claim recoveries		4 061	4 411
Hospital discounts		4 355	4 738
Accredited managed healthcare services	11	(58 365)	(59 782)
Net income on risk transfer arrangements	12	3 816	(17)
Risk transfer arrangement fees paid		(16 935)	(16 886)
Recoveries from risk transfer arrangements		20 751	16 869
Gross healthcare result		404 299	762 260
Broker service fees		(75 862)	(76 007)
Administration expenses	13	(312 069)	(286 901)
Net impairment losses on healthcare receivables	14	(5 091)	(3 234)
Net healthcare result		11 277	396 118
Net impairment losses on financial assets	25.1	(5 401)	(22 631)
Other income		146 753	153 286
Investment income	15	141 478	147 930
Sundry income	16	5 275	5 356
Fair value adjustments	4	58 552	(33 639)
Fair value adjustment on financial assets held at fair value through profit and loss		56 588	(68 797)
Realised gain on financial assets held at fair value through profit and loss		1 964	35 158
Other expenditure		(16 481)	(13 639)
Asset management fees		(16 481)	(13 639)
Finance expense		(5 894)	(3 947)
Net surplus for the year		188 806	475 548
Other comprehensive income		7 784	18 449
<i>Items that may be reclassified to profit or loss:</i>			
Fair value adjustment for financial assets valued through OCI (debt instruments)	4	6 136	11 451
Net impairment losses on financial assets	25.1	5 401	22 631
Reclassification adjustment on realised gains for debt instruments	15	(3 754)	(15 633)
<i>Items that will not be reclassified to profit or loss:</i>		100 590	(7 143)
Fair value through OCI adjustment for equity investments	4	100 590	(7 143)
Realised fair value through OCI for equity instruments		33 543	(21 040)
Reclassification adjustment on realised gains for equity instruments		(33 543)	21 040
Total comprehensive income for the year		297 180	486 854

MEDSHIELD MEDICAL SCHEME

STATEMENT OF CASH FLOWS

for the year ended 31 December 2021

	Note	2021 R'000	2020* R'000 Restated
Cash flows from operating activities			
Cash receipts from members and providers		3 725 848	3 738 844
- Cash receipts from members – contributions		3 720 120	3 733 589
- Cash receipts from members and providers – other		5 728	5 255
Cash paid to providers, employees and members		(3 630 291)	(3 335 612)
- Cash paid to providers and members – claims		(3 285 823)	(3 005 216)
- Cash paid to providers and employees – non-healthcare expenditure		(344 468)	(330 396)
Cash paid to members – savings plan refunds		(13 254)	(9 467)
Cash generated from/(used in) operations		82 303	393 764
- Interest received on cash and cash equivalents		1 443	1 855
- Interest paid		(5 894)	(3 947)
Net cash flows generated from operations		77 852	391 671
Cash flows from investing activities			
Acquisition of property, plant & equipment	2	(291)	(1 613)
Proceeds on disposal of property, plant & equipment		714	-
Purchase of fair value through OCI financial assets		(422 125)	(1 113 975)
Proceeds on disposals of fair value through OCI financial assets	4	213 890	790 156
Dividends		16 125	26 058
Interest		43 040	20 488
Net cash flows utilised from investing activities		(148 647)	(278 887)
Cash flows from financing activities			
Capital lease payments		(22 396)	(21 771)
Net cash flows utilised in financing activities		(22 396)	(21 771)
Net increase / (decrease) in cash and cash equivalents		(93 191)	91 014
Cash and equivalents at the beginning of the year		248 207	157 193
Cash and equivalents at the end of year	6	155 016	248 207

*The comparative information has been restated as a result Circular 52 of 2021: Statement of Cash Flows issued by the Council for Medical Schemes as discussed in note 26.

MEDSHIELD MEDICAL SCHEME

STATEMENT OF CHANGES IN FUNDS AND RESERVES

for the year ended 31 December 2021

	Note	Accumulated funds R'000	Fair value through OCI reserve (Debt) R'000	Fair value through OCI reserve (Equity) R'000	Total members' funds R'000
Balance as at 1 January 2021		1 962 777	38 175	18 809	2 019 761
Surplus for the year		188 806			188 806
Net impairment losses on financial assets	25.1		5 401		5 401
Unrealised fair value changes through OCI for equity	4			100 590	100 590
Fair value changes through OCI for debt instruments	4		6 136		6 136
Reclassification adjustment on realised gains for debt	15		(3 754)		(3 754)
Realised fair value through OCI for equity instruments				33 543	33 543
Reclassification adjustment on realised gains for equity instruments		33 543		(33 543)	-
Total comprehensive income		222 349	7 784	100 590	330 723
Balance as at 31 December 2021		2 185 126	45 959	119 399	2 350 484
Balance as at 1 January 2020		1 508 269	19 726	25 952	1 553 947
Surplus for the year		475 548			475 548
Net impairment losses on financial assets	25.1		22 631		22 631
Unrealised fair value changes through OCI for equity	4			(7 143)	(7 143)
Fair value changes through OCI for debt instruments	4		11 451		11 451
Reclassification adjustment on realised gains for debt	15		(15 633)		(15 633)
Realised fair value through OCI for equity instruments				(21 040)	(21 040)
Reclassification adjustment on realised gains for equity instruments		(21 040)		21 040	-
Total comprehensive income		454 508	18 449	(7 143)	465 814
Balance as at 31 December 2020		1 962 777	38 175	18 809	2 019 761

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

1 Significant accounting policies

The following are the significant accounting policies applied in the preparation of the Annual Financial Statements. These policies comply with International Financial Reporting Standards (IFRS).

These policies have been consistently applied, unless otherwise stated. The format of the statement of comprehensive income conforms with the requirements set out in Circular 41 of 2012, issued by the Council for Medical Schemes.

The format of the Statement of Cash Flows conforms with the requirements set out in Circular 52 of 2021, issued by the Council for Medical Schemes.

1.1 Basis of preparation

Statement of compliance

The Annual Financial Statements are prepared in accordance with IFRS as defined by IAS 1 and the Medical Schemes Act 131 of 1998 as amended.

Basis of measurement

The Annual Financial Statements are prepared on the going concern basis using the historical cost basis, except for certain financial instruments, which are carried at fair value.

Functional and presentation currency

These financial statements are presented in Rands, which is the Scheme's functional and presentation currency. All the financial information presented in Rands has been rounded to the nearest thousand Rand.

Use of estimates and judgements

The preparation of annual financial statements, in conformity with IFRS, requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the scheme's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Annual Financial Statements, are disclosed in Notes 3, 7, 22 & 25.1.

1.2 Adoption of new and revised International Financial Reporting Standards (IFRS)

a. New standards, amendments and interpretations effective in 2021 and relevant to the Scheme:

Standard, interpretation or amendment	Effective date	Expected impact
Interest Rate benchmark Reform - Phase 2: Amendments to IFRS 4: Insurance Contracts	1 January 2021	No material impact
Interest Rate benchmark Reform - Phase 2: Amendments to IFRS 7: Financial Instruments - Disclosures	1 January 2021	No material impact
Interest Rate benchmark Reform - Phase 2: Amendments to IFRS 9: Financial Instruments	1 January 2021	No material impact
Interest Rate benchmark Reform - Phase 2: Amendments to IFRS 16: Leases	1 January 2021	No material impact
Interest Rate benchmark Reform - Phase 2: Amendments to IAS 39: Financial Instruments	1 January 2021	No material impact

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

1 Significant accounting policies (continued)

1.2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

b. New standards, amendments and interpretations not yet effective for December 2021 but relevant to the scheme:

Standard, interpretation or amendment	Effective date	Expected impact
Annual Improvement to IFRS Standards 2018-2020:	1 January 2022	Unlikely to have material impact
Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 9: Financial Instruments	1 January 2022	Unlikely to have material impact
Property, Plant and Equipment: Proceeds before Intended Use: Amendments to IAS 16	1 January 2022	Unlikely to have material impact
Onerous Contracts - Cost of Fulfilling a Contract: Amendments to IAS 37	1 January 2022	Unlikely to have material impact
Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards	1 January 2023	Unlikely to have material impact
Classification of Liabilities as Current or Non-Current - IFRS 17 Insurance Contracts	1 January 2023	Unlikely to have material impact
IFRS 17 Insurance Contracts	1 January 2023	Likely to have material impact

1.3 Significant estimates and judgements

The areas involving significant estimates and judgements are:

- estimation judgements made in relation to lease accounting (Note 3)
- estimation of provision for incurred but not reported claims (IBNR) (Note 7)
- critical judgements (Note 22)
- expected credit losses on financial assets (Note 25.1)

1.4 Property, plant and equipment

Property, plant and equipment is reflected at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged on the straight-line basis over the estimated useful lives of the assets. Estimated useful lives and residual values are reassessed annually.

The estimated current maximum useful lives are:

- Furniture and fittings - 5 years
- Office equipment - 4 years
- Motor vehicles - 4 years
- Computer equipment - 3 years
- Leasehold improvements - 3 years

Maintenance and repairs which neither materially add to the value of the assets nor appreciably prolong their useful lives are charged against income.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

1 Significant accounting policies (continued)

1.5 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.6 Right-of-use assets

(i) The Scheme's leasing activities and how they are accounted for:

The Scheme leases various offices, computer and office equipment. Rental contracts are typically made for fixed periods of 1 to 3 years. There are no extension or termination options in the Scheme's rental contracts.

Contracts may contain both lease and non-lease components. The Scheme allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of offices for which the Scheme is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis every three years and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Scheme.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments);
- variable lease payments that are based on a rate, initially measured using the rate as at the commencement date.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

1 Significant accounting policies (continued)

1.6 Right-of-use assets (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Scheme, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Scheme, where possible, uses third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

The Scheme is exposed to potential future increases in variable lease payments based on a rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on a rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability
- any initial direct costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

1.7 Financial assets

Previously, the Scheme's financial assets were classified depending on the purpose for which the financial assets were acquired. Following the adoption of IFRS 9: Financial Instruments, the Scheme has classified its financial assets based on the business model used to manage the financial assets and the contractual terms of the cash flows.

(i) Classification

From 1 January 2018, the Scheme classifies its financial assets in the following measurement categories:

- a) those to be measured subsequently at fair value through other comprehensive income (FVTOCI), and
- b) fair value through profit and loss (FVTPL)

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

1 Significant accounting policies (continued)

1.7 Financial assets (continued)

(ii) Recognition and derecognition

Regular way purchases or sales of financial assets are recognised on trade date basis, the date on which the Scheme commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Scheme has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

Debt instruments

Fair value through other comprehensive income (FVTOCI)

Assets that are held for collection of contractual cash flows and for selling the financial assets are measured at FVTOCI. On initial recognition, transaction costs that are directly attributable to the acquisition or issue of the financial asset are added or deducted from the fair value of the the financial asset. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest income which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit and loss. Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment expenses are presented as separate line item in the statement of profit and loss.

Fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through FVTPL. On initial recognition, transaction costs directly attributable to the acquisition of the financial asset are recognised immediately in profit or loss. Gains or losses on a debt instrument that is subsequently measured at FVTPL, is recognised in profit or loss, and presented separately as fair value adjustments.

Amortised Cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, adjusted for any loss allowance. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and are presented in investment income. Impairment losses are presented as a separate line item in the statement of profit or loss.

Equity Instruments

On initial recognition, the Scheme has made an irrevocable election to present equity investments at FVTOCI. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. The Scheme subsequently measures all equity investments at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI (Equity) reserve. Dividends from such investments continue to be recognised in profit and loss as other income when the Scheme's right to receive payments is established.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

1 Significant accounting policies (continued)

1.7 Financial assets (continued)

Equity Instruments

Equity instruments that are part of a unitised portfolio are presented at FVTPL. On initial recognition, transaction costs directly attributable to the acquisition of the financial asset are recognised immediately in profit or loss. Gains or losses on a debt instrument that is subsequently measured at FVTPL, is recognised in profit or loss, and presented separately as fair value adjustments.

(iv) Impairment (Expected Credit Loss)

The Scheme assesses impairment of financial assets on a forward-looking basis. The Scheme recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at FVTOCI. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The impairment methodology applied depends on whether there has been a significant increase in credit risk (SICR). The trigger for an SICR is a downgrade of the sovereign by 2 notches or more, of the international scale rating scale since the acquisition of the asset.

The methods for calculating expected credit losses for each financial asset type depends on the underlying assets and their properties. Sometimes several techniques and models may be used within a single asset class. Calculation methods and models may differ from company to company based on the type of assets in each category.

The Scheme calculated expected credit losses on the Scheme's fixed income investments using the Moody's Analytics ImpairmentCalc model, which incorporates their Gcor macroeconomic data, forecasts, weightings and correlations to convert historic credit losses to forward looking expected credit losses. Refer to Note 25.1.

For insurance receivables, the Scheme does not apply the impairment guidelines as outlined in IFRS9: Financial Instruments, as insurance receivables are governed under the scope of IFRS4: Insurance Contracts.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of receivables. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. The scheme's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(b) Trade and other receivables

Trade and other receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less provision for impairment. An appropriate allowance for estimated recoverable amounts is recognised in the statement of comprehensive income when there is objective evidence that assets have been impaired. This allowance is based on a review of the ageing profile of outstanding balances and historical recovery rates. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within "net impairment losses on healthcare receivables". When a trade receivable is uncollectable, it is written off against the allowance account. Permanent impairments are written off to the statement of comprehensive income when identified. Subsequent recoveries of amounts previously written off are credited against net impairment losses on healthcare receivables in the statement of comprehensive income. Receivables arising from healthcare insurance contracts with members are also classified in this category.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

1 Significant accounting policies (continued)

1.7 Financial assets (continued)

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks and other short term liquid investments that are readily convertible to cash and are subject to an insignificant risk of change in value. Short term liquid investments have maturities of 3 months or less. Cash and cash equivalents are classified as loans and receivables and subsequently measured at amortised cost using the effective interest method.

1.8 Investment in Structured entity

The Scheme's investments in Investee Funds is subject to the terms and conditions of the respective Investee Fund's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those Investee Funds. The investment manager makes investment decisions after extensive due diligence of the underlying fund, its strategy and the overall quality of the underlying fund's manager. All of the Investee Funds in the investment portfolio are managed by portfolio managers who are compensated by the respective Investee Funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of the Fund's investment in each of the Investee Funds.

The right of the scheme to request redemption of its investments in Investee Funds ranges in frequency from weekly to semi-annually.

1.9 Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method.

1.10 Provisions

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

1.11 Medical insurance contracts

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

Description of healthcare benefits provided

The types of benefits offered by the scheme in terms of its rules in return for monthly contributions are

- In-hospital benefits,
- Chronic benefits, and
- Day to day benefits

Accounting for contributions received

Gross contributions comprise medical risk contributions and member savings contributions.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

1 Significant accounting policies (continued)

1.11 Medical insurance contracts (continued)

Contributions on member insurance contracts are accounted for monthly when their collection in terms of the insurance contract is reasonably certain. Risk contributions represent gross contributions after deduction of savings plan contributions, which are unbundled and accounted for under IFRS9: Financial Instruments. The earned portion of risk contributions received is recognised as revenue. Risk contributions are earned from the date of attachment of insurance risk, over the indemnity period on a straight-line basis. Risk contributions are shown before the deduction of broker service fees and other similar costs. Contributions received in advance are included in trade and other payables.

Liabilities and related assets under the liability adequacy test

The liability for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows, and comparing this amount to the carrying value of the liability net of any related assets (i.e. the value of business acquired).

Where a shortfall is identified, an additional provision is made and the scheme recognises the deficiency in income for the year.

Accounting for broker fees

Broker fees are recognised as incurred, on a monthly basis.

Claims incurred

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

Risk claims incurred comprise:

- Claims submitted and accrued for services rendered during the year, net of recoveries from members for co-payments and savings plan accounts, for which a separate liability is already recognised;

Risk claims incurred comprise:

- Claims for services rendered during the previous year not included in the outstanding claims provision for that year, net of recoveries from members for co-payments and savings plan accounts;
- Claims settled in terms of risk transfer arrangements;
- Claims incurred, not yet reported and
- Accredited managed healthcare services.

Outstanding risk claims

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

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

1 Significant accounting policies (continued)

1.11 Medical insurance contracts (continued)

Estimated co-payments and payments from savings plan accounts are deducted in calculating the outstanding claims provision. The Scheme does not discount its provision for outstanding claims on the basis that claims must be settled within four months of the medical event and therefore the discounting of the provision is not considered material.

Medical Savings Accounts

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

The deposit component of the insurance contracts has been unbundled, since the Scheme can measure the deposit component separately. The deposit component is recognised in accordance with IAS 39 and is initially measured at fair value and subsequently at amortised cost using the effective interest rate method. The insurance component is recognised in accordance with IFRS 4.

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

Advances on savings contributions are funded from the Scheme's funds, and the risk of impairment is carried by the Scheme.

Liability Adequacy Test

Liability adequacy tests are performed to ensure the adequacy of the member insurance contract liabilities as at the reporting date. In performing these tests, current estimates of future cash flow under the Scheme's insurance contracts are used. Any deficiency is immediately recognised in the Scheme's surplus or deficit.

1.12 Risk transfer arrangements

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

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

Amounts recoverable under such contracts are recognised in the same year as the related claim.

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

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

1 Significant accounting policies (continued)

1.12 Risk transfer arrangements (continued)

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

1.13 Accredited managed healthcare expenditure

Accredited managed healthcare expenditure consists of expenses incurred for accredited services rendered by accredited managed healthcare providers. They are classified under relevant healthcare expenditure and included in the gross healthcare result. Unaccredited managed healthcare expenses are included in administration expenses.

1.14 Revenue recognition

Contribution income

Contribution income is dealt with in 1.11.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

Dividend income

Dividend income is recognised when the right to receive payment is established.

1.15 Reimbursements from the Road Accident Fund (RAF)

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

A reimbursement from the RAF is a possible asset that arises from a claim submitted to the RAF and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Scheme. The contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. Due to the uncertain outcome of claims to the RAF, the Scheme has accounted for reimbursements on a cash received basis. If an inflow of economic benefits has become probable, the Scheme discloses the contingent asset. Amounts received from members in respect of reimbursements from the RAF are recognised as third party claim recoveries and deducted from claims and they are not reflected as sundry income.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

1 Significant accounting policies (continued)

1.16 Defined contribution fund/ Employee benefits

Pension Obligation

The Scheme participates in a defined contribution plan via a managed umbrella fund. A defined contribution plan is a plan under which the Scheme pays fixed contributions into a separate entity. The Scheme has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Leave pay accrual

The Scheme recognises, in full, employees' rights to annual leave entitlement in respect of past services.

Incentives

Management and staff incentives are recognised as an expense in staff costs as incurred.

1.17 Allocation of income and expenditure to benefit options

The following items are directly allocated to benefit options:

- Risk contributions;
- Risk claims incurred;
- Net income/(expense) on risk transfer arrangement fees;
- Accredited managed healthcare services;
- Broker fees;

The remaining items are apportioned based on the number of members on each option (*or other suitable basis*):

- Administration fees;
- Net impairment losses or reversals on healthcare receivables;
- Net impairment losses on financial assets;
- Investment income;
- Other income; and
- Finance expense.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL

for the year ended 31 December 2021

2 Property, plant and equipment	Leasehold	Motor vehicles	Furniture & fittings	Computer and office	Total
	Improvements			equipment	
	R'000	R'000	R'000	R'000	R'000
Year ended 31 December 2021					
Gross carrying amount					
At beginning of year	3 442	1 716	9 350	5 624	20 132
Additions	-	-	-	291	291
Disposals	-	-	-	(1 381)	(1 381)
At end of year	3 442	1 716	9 350	4 534	19 042
Accumulated depreciation					
At beginning of year	(3 287)	(1 670)	(5 793)	(4 170)	(14 920)
Disposals	-	-	-	667	667
Depreciation charges	(143)	(46)	(1 541)	(623)	(2 353)
At end of year	(3 430)	(1 716)	(7 334)	(4 126)	(16 606)
Net carrying amount at end of year	12	0	2 016	408	2 436

Property, plant and equipment	Leasehold	Motor vehicles	Furniture & fittings	Computer and office	Total
	Improvements			equipment	
	R'000	R'000	R'000	R'000	R'000
Year ended 31 December 2020					
Gross carrying amount					
At beginning of year	3 442	1 716	9 241	4 120	18 519
Additions	-	-	109	1 504	1 613
At end of year	3 442	1 716	9 350	5 624	20 132
Accumulated depreciation					
At beginning of year	(3 051)	(1 610)	(4 137)	(3 502)	(12 300)
Depreciation charges	(236)	(60)	(1 656)	(668)	(2 620)
At end of year	(3 287)	(1 670)	(5 793)	(4 170)	(14 920)
Net carrying amount at end of year	155	46	3 557	1 454	5 212

	2021	2020
	R'000	R'000
3 Right-of-use assets		
Leased properties	5 307	6 842
Leased equipment	10 851	10 504
Total right-of-use asset	16 158	17 346
Reconciliation of right-of-use asset		
Opening Balance as at 1 January 2021	17 346	35 556
Additions	21 530	5 374
Depreciation	(22 718)	(23 584)
Closing Balance as at 31 December 2021	16 158	17 346
Lease liability		
Current	(19 662)	(19 841)
Non-current	(544)	(1 231)
	(20 206)	(21 072)
Reconciliation of lease liability		
Opening Balance as at 1 January 2021	(21 072)	(37 469)
Increase in lease liability - Right-of-use asset	(21 530)	(5 374)
Lease payments	22 396	21 771
Closing Balance as at 31 December 2021	(20 206)	(21 072)

The Scheme determined the estimated incremental borrowing rate using information obtained from the Scheme's bankers, Nedbank. It obtained pricing for computer and office equipment, which was prime less 0.5%. The Scheme used that rate for leased equipment and adjusted the rate to prime less 1.0% for leased properties.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

	2021 R'000	2020 R'000
4 Financial assets		
Current	2 135 071	1 664 546
- Fair value through other comprehensive income	1 178 218	864 152
- Fair value through profit or loss	956 853	800 394
Non-Current	581 028	581 198
- Fair value through other comprehensive income	581 028	581 198
	<u>2 716 099</u>	<u>2 245 744</u>
Fair value at the beginning of the year	2 245 744	1 899 434
Additions/re-investments	362 960	1 067 429
Disposals at fair value at date of disposal	(194 164)	(822 231)
Re-investment of investment income	136 281	130 443
Fair value adjustment for financial assets valued through OCI (debt instruments)	6 136	11 451
Fair value adjustment for financial assets fair valued through profit and loss	58 552	(33 639)
Fair value adjustment for financial assets valued through OCI (equity instruments)	100 590	(7 143)
Fair value at the end of the year	<u>2 716 099</u>	<u>2 245 744</u>
Investments have been managed by a number of fund managers namely:		
Segregated portfolio investments	1 759 246	1 445 350
Sanlam Investment Management	595 575	531 214
Argon Asset Managers	596 608	483 276
Prudential Portfolio Managers	567 063	430 860
Unitised investments	956 853	800 394
Allan Gray Life Limited	626 975	538 636
Stanlib Investment Managers	329 878	261 758
	<u>2 716 099</u>	<u>2 245 744</u>
Financial assets comprise the following:		
Financial Assets - other comprehensive income		
Listed equities	770 500	473 943
Debt instruments	427 096	387 496
Money market instruments	561 650	583 911
	<u>1 759 246</u>	<u>1 445 350</u>
Financial Assets - profit and loss		
Unitised instruments	877 856	591 654
Money market instruments - risk	78 997	208 740
	<u>956 853</u>	<u>800 394</u>
Total Financial Assets	<u>2 716 099</u>	<u>2 245 744</u>

The fair value of the investments is based on market value at year end. Listed equities are based on the JSE Ltd closing price, debt instruments and money market instruments are based on the Bond Exchange of South Africa closing price. Unitised investments are measured at the repurchase price. The maximum exposure to credit risk at the reporting date is the fair value of debt securities classified as financial assets. The Scheme has invested in bonds spread across all bond types and the market performance of the bond indices varied between 8.03% (2020: 11.50%) on the 1-3 year bond index to 10.52% (2020: 10.58%) on the 7-12 year bond index. All investments are denominated in South African Rands.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

	2021 R'000	2020 R'000
5 Trade and other receivables		
<i>Receivables arising from medical insurance contracts</i>	45 332	46 979
Contributions outstanding	32 575	37 478
Contributions outstanding - Private members	14 247	9 999
Contributions outstanding - Group members	18 328	27 479
Recoveries from members for co-payments	3 721	1 601
Provider debtors	5 167	4 121
Claims recovery for emergency services (Meditrac)	3 614	3 614
Savings plan account advances (Note 8)	255	165
<i>Receivables arising from non-medical insurance contracts</i>	50 883	51 337
Interest accrued on call and current accounts	158	213
Inter-account bank transfer	494	494
Prepayments	970	1 183
Rent deposit	90	90
South African Post Office deposit / Europ Assistance	520	520
MVA Recoveries*	269	269
Fees recoverable from former Trustees**	10 322	10 322
Research fees recoverable for prior years**	27 667	27 667
Consulting fees recoverable	57	57
Trademark cost recovery***	10 000	10 000
Sundry accounts receivable	336	522
Less : Provision for impairment loss (Note 14)	(71 483)	(66 544)
	<u>24 732</u>	<u>31 772</u>

The carrying value of trade and other receivables is a reasonable approximation of their fair value due to the short-term maturities of these assets. The maximum exposure to credit risk is the carrying value of each class of receivable mentioned above. The Scheme does not hold any collateral as security. The other receivables arising from non-medical insurance contracts include no impaired receivables (refer to Note 25 for credit quality evaluation).

* MVA recoveries are motor vehicle accident recoveries from the Road Accident Fund.

** As per the Council for Medical Schemes directive issued 15 June 2012 these amounts were to be recovered from various parties. These amounts are fully impaired as the recoverability is uncertain and the impact on the Financial Statements is effectively zero.

*** The Scheme purchased three trademarks from Alumni Trading (Pty) Ltd for R10m in 2013. The purchase agreement determined that Alumni must cause the trademarks to be transferred to Medshield which it failed to do. Medshield sent a notice of termination to Alumni in which the R10m was demanded to be returned. As recoverability is uncertain, the amount of R10m was fully impaired.

	2021 R'000	2020 R'000
6 Cash and cash equivalents		
Current accounts	155 016	247 544
Current accounts held in escrow	-	663
	<u>155 016</u>	<u>248 207</u>

The average effective interest rate on current accounts was 2.85% (2020: 3.8%). The carrying value of cash and cash equivalents is a reasonable approximation of their fair value due to their short-term maturities.

Yieldex Trading ("Landlord") and the Scheme entered into a lease agreement in respect of the premises situated at Glenrand MIB House, 288 Kent Avenue Ferndale Randburg, and in terms of which the Landlord requires that the Scheme furnishes the Landlord with a letter of guarantee in respect of the Scheme's rental obligation to the Landlord in terms of the Lease. The Scheme has furnished the Landlord with the required guarantee in the amount of R881 500.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

	2021 R'000	2020 R'000
6 Cash and cash equivalents (continued)		
Deposit for South African Post Office	-	663
Total current accounts held in escrow	-	663

On 08 June 2009, Nedbank issued a bank guarantee amounting to R500k in respect of the South African Post Office for bulk posting services provided by the South African Post Office to the Scheme. The guarantee is restricted to the payment of money only. The guarantee has no expiry date. Nedbank reserve the right to withdraw the guarantee. The guarantee is neither negotiable nor transferable and is terminated at any time on three months' notice.

In 2010, the Scheme entered into a contract with Europ Assistance Worldwide (Pty) Ltd for the provision of emergency medical services. As a condition to this contract, the Scheme had to pay an amount of R500k as cash float to enable the business operations between the parties. Upon termination of the contract, Europ Assistance had to pay the deposit back to the Scheme. There is no evidence of the repayment of this deposit. Due to the significant time that has lapsed, the amount is not deemed as recoverable and therefore has not been reported as an escrow balance.

7 Outstanding claims provision

Provision for outstanding claims incurred but not reported	219 000	175 000
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Analysis of movements in outstanding claims

Balance at beginning of year	175 000	200 000
Payments in respect of prior year	(185 460)	(163 060)
(Under)/over provision in prior period (Note 11)	(10 460)	36 940
Adjustment for current year (Note 11)	229 460	138 060
Balance at end of year	219 000	175 000

Methodology applied to determine the provision

The existing accounting policy relating to the outstanding claims provision considers current estimates of all contractual flows, therefore in terms of IFRS 4, no further liability adequacy test is required.

The actuaries apply three methods to determine the IBNR "incurred but not reported" provision, namely the Health Monitor Computer Model, Chain Ladder Method and the Bornhuetter-Ferguson Methods.

The Health Model estimates claims incurred by service date, based on the Scheme's demographic profile and claims experience. Results from the Health Monitor are then reconciled with actual claims paid on a monthly basis and adjustments are made where necessary to ensure that the results remain accurate. By comparing the claims predicted by the Health Monitor to the actual claims paid, an appropriate provision for outstanding claims is then determined.

The Chain Ladder Method involves calculating monthly claims run-off factors per benefit category from the data provided and then using these factors to make projections of the total claims incurred in each month, based on payments made to date. To ensure homogeneity, these projected figures are then used to estimate an IBNR claims reserve for each month, split per benefit category and then allocated per benefit option.

The Bornhuetter-Ferguson Method applies to the run-off calculated through the Chain Ladder Method to a total monthly claims estimate based on previous years' claims ratio experience. The total claims estimate is calculated based on total contributions received and the assumption that the claims ratio is in line with that of the prior year.

The results from these methods are bootstrapped to provide a distribution of possible IBNR provisions based on the statistical distribution of actual run-off factors.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

7 Outstanding claims provision (continued)

Process used to determine the assumptions

The actual method or blend of methods used may vary each year due to factors relevant to that year. 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 can relate to changes in the proportion of paper versus electronic claims submissions (electronic being quicker), changes/improvements in the administration system which improves turnaround times, proportion of working days in the month (public and school holidays do not have the same effect) and other ad hoc factors such as power outages or staff strikes that affect the development/recording of claims paid and incurred such as changes in claims submission procedures;
- economic, legal, political and social trends (resulting in different than expected levels of inflation and/or minimum and/or maximum levels of medical benefits to be provided); and
- changes in composition of beneficiary profiles and their clinical status.

Assumptions

The assumption that has the greatest effect on the measurement of the outstanding claims provision is the proportion of claims paid 3 months after the year end (as at the end of March) when expressed as a percentage of the expected total claim payments in respect of the full year for which the outstanding claims provision is being estimated, based on historical claims development information.

The analysis of sensitivity of the various estimation techniques and variables for the determination of the claims provision provides an indication of the adequacy of the Scheme's estimation process. Adequacy implies that it is equally likely that the actual result will be higher or lower than the calculated estimate. The Board believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

Changes in assumptions and sensitivities to changes in key variables

Although the provision for outstanding claims is believed to be adequate the results are subject to a certain degree of uncertainty. As opposed to claims for 2021 that have already been paid, the claims for the 2021 estimate to be paid in future payment months are still subject to uncertainty. This quantity forms a useful basis for a sensitivity analysis. The table below illustrates the effect of a 10% increase and decrease in the claims expected to be paid in 2022 for claims with a 2021 service date.

Scenario	Claims for 2021 services paid during 2021 R'000	Outstanding claims provision R'000	Estimated claims incurred	% change in total incurred claims
Base scenario	2 917 393	219 000	3 136 393	
Increase	2 917 393	240 900	3 158 293	0.70%
Decrease	2 917 393	197 100	3 114 493	-0.70%

The same analysis appears below for the outstanding claims provision for 2020 where claims paid after March 2021 for 2020 forms the basis for the sensitivity analysis. Note that the base scenario figures below are actuals, not estimates.

Scenario	Claims for 2020 services paid during 2020 R'000	Outstanding claims provision R'000	Estimated claims incurred R'000	% change in total incurred claims
Base scenario	2 836 831	175 000	3 011 831	
Increase	2 836 831	192 500	3 029 331	0.58%
Decrease	2 836 831	157 500	2 994 331	-0.58%

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

	2021 R'000	2020 R'000
8 Personal medical savings account trust liability		
Balance on personal member savings at the beginning of the year	164 993	161 507
Less: Advances on member savings at beginning of the year	(165)	(182)
Net balance on member savings at the beginning of the year	164 828	161 325
Add: Member savings contributions received or receivable (Note 10)	81 686	87 532
Transfers from other schemes	912	2 299
Claims paid on behalf of members (Note 11)	(74 919)	(72 955)
Less: Refunds	(13 254)	(9 467)
Less : Savings utilised to pay contributions	(0)	(3 906)
Add: Advances on savings plan accounts (Note 5)	255	165
Balance due to members savings at the end of the year	159 507	164 993

- The Scheme has two savings options.
- The personal medical savings contains a demand feature in terms of regulation 10 of the Medical Schemes Act that any credit balance on a member's personal savings account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit option, and then enrolls in another benefit option or medical scheme without a personal medical savings account or does not enrol in another medical scheme.
- Advances on member personal medical savings are included in trade and other receivables (Note 5). The Scheme does not charge interest on advances on personal medical savings accounts.
- As at the end of the period the carrying amount of the personal medical savings accounts were deemed to be equal to their fair values, which is the amount payable on demand. The amounts were not discounted due to the demand feature.
- The carrying value of personal medical savings is a reasonable approximation of its fair value as it is payable on demand.
- The Scheme rules were changed effective 1 January 2018 to reflect that personal medical savings account (PMSA) trust monies received are the funds of the Scheme and there is no obligation to deposit PMSA trust monies received into a separate trust account. Furthermore, the Scheme rules state that PMSA trust monies received may be utilised by the Scheme to fund Scheme operations. Therefore, the Scheme does not allocate interest to PMSA balances.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

	2021 R'000	2020 R'000
9 Trade and other payables		
<i>Payables arising from medical insurance contracts</i>	<i>83 537</i>	<i>106 803</i>
Accrual for member refunds	6 279	6 573
Contribution credit balances	6 279	6 573
Contributions received in advance	49 855	68 213
Reported claims not yet paid	21 212	25 574
Balance at beginning of year	25 574	35 723
Payment made for the year	(3 046 246)	(2 756 912)
Current year claims (note 11)	3 020 672	2 721 189
Claims run payable at year-end	21 212	25 574
Amounts owing to managed care service providers	6 037	6 331
Amounts owing to ambulance services	154	112
<i>Payables arising from non-medical insurance contracts</i>	<i>81 707</i>	<i>60 652</i>
Accrual for consulting services	4 103	4 079
Accrual for acquisition and retention activities	2 679	3 507
Accrual for IT related services	4 074	4 319
Accrual for actuarial services	1 080	176
Accrual for leave liability	7 450	6 015
Accrual for legal fees	2 469	1 370
Provision for internal audit fees	2 163	1 797
Provision for external audit fees	3 124	2 930
Accrual for forensic services	3 250	3 369
Accrual for marketing fees	761	81
Accrual for salaries and staff welfare*	30 550	23 768
Accrual for strategic projects	-	-
Accrual for printing, postage & stationary	838	1 064
Accrual for telephony	288	222
Accrual for travel	419	172
Unallocated deposits	17 911	7 442
Other payables	548	341
	165 244	167 455

The carrying value of trade and other payables is a reasonable approximation of their fair value due to short term maturities of these liabilities.

* Included in the accruals for salaries is the provision for short-term incentives of R26.2m.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

	2021 R'000	2020 R'000
10 Risk contribution income		
Gross contributions	3 717 622	3 740 545
Less: unbundled savings contributions (Note 8)	(81 686)	(87 532)
Risk contribution income	<u>3 635 936</u>	<u>3 653 013</u>
	2021 R'000	2020 R'000
11 Risk claims incurred		
Gross claims	3 020 672	2 721 189
Claims serviced in respect of risk transfer arrangements (Note 12)	20 751	16 869
Movement in outstanding claims provision	219 000	175 000
Under/Over provision in prior year (Note 7)	(10 460)	36 940
Adjustment for current year (Note 7)	229 460	138 060
Claims paid from savings accounts (Note 8)*	(74 919)	(72 955)
	<u>3 185 504</u>	<u>2 840 103</u>
Recoveries from the Road Accident Fund	(4 061)	(4 411)
Hospital discounts	(4 355)	(4 738)
Accredited managed care healthcare services**	58 365	59 782
	<u>3 235 453</u>	<u>2 890 736</u>
Less: Net income/(loss) incurred in respect of risk transfer arrangements	(3 816)	17
Net claims incurred per the statement of comprehensive income	<u>3 231 637</u>	<u>2 890 753</u>

* Claims are paid on behalf of the members from their personal medical savings accounts in terms of Regulation 10(3) and the Scheme's registered benefits. Refer to Note 8 to the financial statements for a breakdown of the movement of the personal medical savings trust account.

	2021 R'000	2020 R'000
**Accredited managed healthcare services		
Mediscor PBM (Pty) Ltd - medicine benefit management*	12 172	12 624
Medscheme Health Risk Services - hospital benefit management*	32 862	33 012
LifeSense Disease Management**	5 888	5 954
Denis Dental Management*	3 417	3 591
Centre for Diabetes and Endocrinology ***	3 572	4 143
Independent Clinical Oncology Network (Pty) Ltd. ("ICON")*	454	458
	<u>58 365</u>	<u>59 782</u>

The calculation of allocation of each benefit is as follows:

*Per member per month

**Per member per registration

***Patient count per month

12 Net income on risk transfer arrangements

Netcare Hospitals (Pty) Ltd t/a Netcare 911

The recovery in respect of Netcare 911 is based on the total costs incurred by them in respect of services rendered to the Scheme. Services include emergency telephonic assistance via health-on-line, emergency response by road or air ambulance to the scene of the accident as well as transfer of the beneficiary by road or air to the most appropriate medical facility.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

	2021 R'000	2020 R'000
12 Net income on risk transfer arrangements (continued)		
Premiums paid	(16 935)	(16 886)
Netcare Hospitals (Pty) Ltd t/a Netcare 911	(16 935)	(16 886)
Recoveries (Note 11)	20 751	16 869
Netcare Hospitals (Pty) Ltd t/a Netcare 911	20 751	16 869
Net income/(loss) per the statement of comprehensive income	3 816	(17)
	2021 R'000	2020 R'000
13 Administration expenses		
Actuarial Fees	3 090	2 723
Administration IT system and hosting costs	23 426	23 378
Audit Committee fees	590	532
Audit fees	2 477	2 926
- Current year	2 800	2 676
- Prior year	(323)	250
Bank charges	2 276	2 238
Benefit management services	8 734	8 721
Board of Healthcare Funders membership fees	1 095	1 109
Claims processing fees	1 230	1 021
Communication costs	1 016	1 688
Computer services	6 236	4 046
Conference expenses	455	254
Consulting fees	2 619	3 081
Council for Medical Schemes	3 369	3 084
Depreciation (Note 2)	2 353	2 620
Distribution costs	10 521	9 089
Insurance premiums	530	431
Internal audit fees	2 794	3 387
Fidelity guarantee and professional indemnity insurance	475	475
Forensic fees	2 544	2 466
Legal & inspection fees*	13 412	4 080
Marketing fees	21 539	15 340
Meeting expenses	154	236
Motor vehicle expenses	902	938
Office rent	2 511	2 293
Personnel and related costs	148 109	137 716
- Salaries and related costs	139 342	129 146
- Provident fund contributions	8 767	8 570
Postage and printing	4 653	3 981
Principal Officer Fees (Note 19)	6 423	6 188
Regional office infrastructure, facilities and support	833	360
Rentals of office equipment	185	392
Right-of-use asset depreciation (Note 3)	22 718	23 584
Stationery	464	888
Strategic Projects	4 378	8 305
Subscriptions	257	233
Telephone	3 153	2 963
Trustees' fees (Note 19)	4 298	4 315
Travel & Entertainment	2 250	1 820
	312 069	286 901

* The legal & inspection fees include costs relating to the Independent Committee amounting to R6.7m and other Board-approved legal & investigation costs amounting to R2.1m. Legal fees relating to Scheme cases and legal opinions amount to R 4.6m.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

14 Provision for impairments of receivables

31 December 2021	R'000	R'000	R'000	R'000	R'000	R'000	R'000
	Contribution debtors						
	Employer Groups	Private members	Sundry debtors	Members portions	Provider debtors	Savings	Total
Opening balance	(6 656)	(3 802)	(51 660)	(1 568)	(2 815)	(43)	(66 544)
Net provisions reversed/(raised) during the year	(3 679)	(787)	-	(165)	(199)	(109)	(4 939)
Additional provisions made during the year	(6 655)	(1 139)	-	(428)	(516)	(209)	(8 947)
Unused amounts reversed during the period	2 976	352	-	263	317	100	4 008
	(10 335)	(4 589)	(51 660)	(1 733)	(3 014)	(152)	(71 483)

31 December 2020	R'000	R'000	R'000	R'000	R'000	R'000	R'000
	Contribution debtors						
	Employer Groups	Private members	Sundry debtors	Members portions	Provider debtors	Savings	Total
Opening balance	(5 147)	(2 931)	(51 660)	(1 093)	(2 627)	(141)	(63 599)
Net provisions reversed/(raised) during the year	(1 509)	(871)	-	(475)	(188)	98	(2 945)
Additional provisions made during the year	(6 325)	(1 244)	-	(755)	(493)	(913)	(9 730)
Unused amounts reversed during the period	4 816	373	-	280	305	1 011	6 785
	(6 656)	(3 802)	(51 660)	(1 568)	(2 815)	(43)	(66 544)

Sundry Debtor impairments relate primarily to the curatorship period whereby the Council for Medical Scheme issued directives to the Scheme to institute legal action on a number of matters. The Scheme raised the sundry income related to trustee fees (R10.3m) research fees (R27.7m) and consulting fees (R0.2m). There were further sundry income items raised related to the Meditrac Ambulance Claims (R3.6m) and the Medshield Trademark (R10m). All these items have been impaired as it is uncertain whether these amounts will be received by the Scheme.

14.1 Net (impairment losses) / recoveries on healthcare receivables	2021 R'000	2020 R'000
Net provisions (raised) during the year	(4 939)	(2 945)
Add : Bad debts written off during the year	(152)	(289)
Net impairment (losses) in the income statement	(5 091)	(3 234)

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

	2021 R'000	2020 R'000
15 Investment income		
Interest income	105 805	84 790
Interest on financial assets	104 362	82 935
Interest on cash and cash equivalents	1 443	1 855
Net realised gains on disposal of financial assets	3 754	15 633
Realised gains from debt instruments	9 023	23 896
Realised losses from debt instruments	(5 269)	(8 263)
Dividend income	31 919	47 507
	141 478	147 930
16 Sundry income		
Insurance recoveries	51	-
SLA Penalty recoveries	309	-
Fraud recoveries	4 600	5 356
Unallocated deposits written back after prescription / bad debts recovered	315	-
	5 275	5 356

17 Contingent assets

- a. Action has been instituted against Calabash Health Solutions (Pty) Ltd (In liquidation) and its former directors regarding the potential recovery of the amount of R46.2m relating to claims paid by the Scheme as a result of Calabash's breach of a capitation agreement. The matter is still being pursued by the Schemes legal
- b. The Scheme has 1 156 (2020: 957) outstanding road accident claims to the value of R117.0m (2020: R111.6m) at 31 December 2021. Due to the uncertain outcome of claims against the Road Accident Fund by members, recoveries are only accounted for on a cash received basis.

18 Related party transactions

The Board of Trustees and the Principal Officer have the authority as well as the responsibility for planning, directing and controlling the activities of Medshield Medical Scheme. The Trustees are responsible for the affairs of the

Principal Officer and Executive Management

(i) Principal Officer

	2021 R'000	2020 R'000
<i>Transactions for the year:</i>		
Remuneration and considerations - Principal Officer (Note 20)	6 423	6 188
- Total Remuneration	4 072	4 030
- Short-term incentive provision	2 293	2 096
- Other disbursements (Operational expenses)*	58	62

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

18 Related party transactions (continued)	2021 R'000	2020 R'000
Medical Aid contribution and claims made to and received from the Scheme	42	52
- Membership contributions made by Principal Officer	61	62
- Claims paid in respect of the Principal Officer	(19)	(10)
<i>Balances at year-end:</i>		
- Short-term incentive provision	2 293	2 096
(ii) Key Management		
<i>Transactions for the year:</i>		
Remuneration and considerations	21 167	21 658
- Total Remuneration	15 496	15 845
- Short-term incentive provision	5 257	5 515
- Other disbursements (Operational expenses)	414	298
Medical Aid contribution and claims made to and received from the Scheme	36	159
- Membership contributions made by executives	263	240
- Claims paid in respect of executives	(227)	(81)
Board of Trustees	2021 R'000	2020 R'000
- Fees and Remuneration considerations	4 125	4 113
- Other disbursements	173	202
- Membership contributions made by Trustees	466	947
- Claims paid in respect of Trustees	338	927
- Trustee personal medical savings accounts balances	5	76

Terms and conditions of the related party transactions were as follows:

Remuneration

This constitutes fees received by the member, acting in the capacity of a trustee of the Scheme.

Contributions received

This constitutes the contributions paid by the related party as a member of the Scheme, in their individual capacity. All contributions were on the same terms as applicable to members.

Claims incurred

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

Personal member savings accounts

The amounts owing to the related parties relate to medical aid savings balances to which the parties have a right. In line with the Scheme rules, these balances no longer earn interest. The amounts are all current, and would need to be payable on demand should an appropriate claim be issued, or the member exits the Scheme.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

19 Trustees' & Principal Officer remuneration and considerations

31 December 2021

		R'000	R'000	R'000	R'000	R'000
Names	Date appointed /resigned	Fees for meeting attendance	Fees for holding office	Total remuneration	*Other disbursements (Operational expenses)	Total remuneration and operational expenses
Principal Officer						
T Naidoo	Left employ of Scheme 14 December 2021		6 330	6 330	58	6 388
A Fritz	Appointed Acting Principal Officer 15 December 2021		35	35		35
Sub total		-	6 365	6 365	58	6 423
Board of Trustees						
A Labuscagne (Chairperson)	Appointed 30 September 2020	153	542	695	26	721
T Wiblin	Appointed 30 September 2020	354	217	571	29	600
E Botha	Appointed 30 September 2020	393	217	610	20	630
Dr Z Soni	Appointed 30 September 2020	320	217	537	21	558
Dr J Soni	Term ended 11 February 2021	32	25	57	-	57
L de Lange	Term ended 11 February 2021	34	25	59	-	59
M Chidi	Appointed 30 November 2020	332	217	549	16	565
K Majola	Appointed 12 February 2021	368	191	559	24	583
R Nandkoomar	Appointed 12 February 2021	297	191	488	37	525
Sub total		2 283	1 842	4 125	173	4 298
Total		2 283	8 207	10 490	231	10 721

* Other disbursements (operational expenses) include amongst other expenses, training & travel and entertainment.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

19 Trustees' & Principal Officer remuneration and considerations

31 December 2020		R'000	R'000	R'000	R'000	R'000
Names	Date appointed /resigned	Fees for meeting attendance	Fees for holding office	Total remuneration	*Other disbursements (Operational expenses)	Total remuneration and operational expenses
Principal Officer						
T Naidoo			6 126	6 126	62	6 188
Sub total		-	6 126	6 126	62	6 188
Board of Trustees						
C Akeroyd (Chairperson)	Term ended 30 September 2020	29	398	427	3	430
A Labuscagne (Chairperson)	Appointed 30 September 2020	24	133	157	36	193
S Makhani	Term ended 30 September 2020	204	159	363	3	366
L Sekele	Term ended 30 September 2020	240	159	399	11	410
Dr L Erasmus	Term ended 30 September 2020	270	183	453	3	456
A Fourie-Van Zyl	Term ended 20 November 2020	304	194	498	12	510
T Wiblin	Appointed 30 September 2020	72	53	125	21	146
E Botha	Appointed 30 September 2020	84	53	137	3	140
Dr Z Soni	Appointed 30 September 2020	68	53	121	9	130
Dr J Soni		259	212	471	3	474
L de Lange		259	212	471	56	527
M Chidi		279	212	491	42	533
Sub total		2 092	2 021	4 113	202	4 315
Total		2 092	8 147	10 239	264	10 503

* Other disbursements (operational expenses) include amongst other expenses, training & travel and entertainment.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

20 Surplus/(deficit) from operations per benefit option

31 December 2021	R'000	R'000	R'000	R'000	R'000	R'000
Category	MediPlus Prime	MediPlus Compact	MediValue Prime	MediValue Compact	MediBonus	MediPhila
Number of members	17 462	589	28 996	4 732	2 400	9 767
Net contribution income	1 172 778	36 185	1 160 090	152 218	253 422	228 675
Net claims incurred & net income/(expense) from risk transfer arrangements	(1 033 151)	(49 486)	(961 750)	(153 634)	(236 683)	(205 665)
Gross healthcare result	139 627	(13 301)	198 340	(1 416)	16 739	23 010
Broker service fees	(22 237)	(702)	(29 879)	(4 061)	(3 068)	(6 753)
Administration expenditure	(75 544)	(2 502)	(125 365)	(17 547)	(10 467)	(37 356)
Net impairment (losses) on healthcare receivables	(1 023)	10	(3 899)	(407)	161	(552)
Net healthcare result	40 823	(16 495)	39 197	(23 431)	3 365	(21 651)
Net impairment (losses) on financial assets	(1 271)	(43)	(2 111)	(344)	(175)	(711)
Investment income	34 167	1 133	56 657	8 019	4 749	17 083
Sundry income	1 076	20	3 643	69	123	100
Fair value adjustment on financial assets held at fair value through profit and loss	14 272	469	23 573	3 183	1 991	6 872
Asset management fees	(3 986)	(132)	(6 610)	(927)	(554)	(1 979)
Finance expense	(1 395)	(47)	(2 315)	(367)	(192)	(761)
Surplus/(deficit) for the year	83 686	(15 095)	112 034	(13 798)	9 307	(1 047)

Expenses not directly attributable to an option were allocated proportionately to the membership per option.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

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

31 December 2021	R'000	R'000	R'000	R'000	R'000	R'000
Category	MediCore	MediSaver	Premium Plus	MediCurve	Discontinued	Total
Number of members	3 652	4 589	1 642	377	-	74 206
Net contribution income	215 847	265 773	148 514	2 433	1	3 635 936
Net claims incurred & net income/(expense) from risk transfer arrangements	(198 136)	(239 292)	(152 880)	(961)	1	(3 231 637)
Gross healthcare result	17 711	26 481	(4 366)	1 472	2	404 299
Broker service fees	(3 193)	(4 510)	(1 387)	(72)	-	(75 862)
Administration expenditure	(15 752)	(19 839)	(7 161)	(535)	(1)	(312 069)
Net impairment (losses) on healthcare receivables	91	230	302	(4)	-	(5 091)
Net healthcare result	(1 143)	2 362	(12 612)	861	1	11 277
Net impairment (losses) on financial assets	(266)	(334)	(120)	(27)	1	(5 401)
Investment income	7 190	8 971	3 238	270	1	141 478
Sundry income	92	114	35	(2)	5	5 275
Fair value adjustment on financial assets held at fair value through profit and loss	3 001	3 749	1 354	88	-	58 552
Asset management fees	(839)	(1 046)	(378)	(29)	(1)	(16 481)
Finance Expense	(292)	(367)	(131)	(26)	(1)	(5 894)
Surplus/(deficit) for the year	7 743	13 449	(8 614)	1 135	6	188 806

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

21 Surplus/(deficit) from operations per benefit option (continued)

31 December 2020	R'000	R'000	R'000	R'000	R'000	R'000
Category	MediPlus Prime	MediPlus Compact	MediValue Prime	MediValue Compact	MediBonus	MediPhila
Number of members	19 301	450	30 496	3 099	2 826	8 078
Net contribution income	1 240 318	25 115	1 163 917	91 364	283 496	181 209
Net claims incurred & net income/(expense) from risk transfer arrangements	(993 498)	(33 799)	(890 877)	(77 718)	(229 133)	(126 089)
Gross healthcare result	246 820	(8 684)	273 040	13 646	54 363	55 120
Broker service fees	(24 213)	(455)	(30 762)	(2 143)	(3 523)	(5 119)
Administration expenditure	(73 554)	(1 715)	(116 216)	(11 810)	(10 770)	(30 784)
Net impairment (losses) on healthcare receivables	(698)	(73)	(1 463)	(381)	(456)	(308)
Net healthcare result	148 355	(10 927)	124 599	(688)	39 614	18 909
Net impairment (losses) on financial assets	(5 802)	(135)	(9 167)	(932)	(850)	(2 428)
Investment income	37 925	884	59 923	6 089	5 553	15 873
Sundry income	2 133	(3)	2 876	9	180	(30)
Fair value adjustment on financial assets held at fair value through profit and loss	(9 072)	(183)	(15 022)	(518)	(1 342)	(2 328)
Asset management fees	(3 497)	(82)	(5 525)	(561)	(512)	(1 463)
Finance Expense	(1 012)	(24)	(1 599)	(162)	(148)	(424)
Surplus/(deficit) for the year	169 030	(10 470)	156 085	3 237	42 495	28 109

Expenses not directly attributable to an option were allocated proportionately to the membership per option.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

21 Surplus/(deficit) from operations per benefit option (continued)

31 December 2020	R'000	R'000	R'000	R'000	R'000
Category	MediCore	MediSaver	Premium Plus	Discontinued	Total
Number of members	4 064	5 107	1 864	-	75 285
Net contribution income	227 342	281 724	158 529	(1)	3 653 013
Net claims incurred & net income/(expense) from risk transfer arrangements	(186 760)	(213 538)	(139 341)	-	(2 890 753)
Gross healthcare result	40 582	68 186	19 188	(1)	762 260
Broker service fees	(3 403)	(4 856)	(1 531)	(2)	(76 007)
Administration expenditure	(15 487)	(19 462)	(7 103)	-	(286 901)
Net impairment (losses) on healthcare receivables	(2)	(18)	165	-	(3 234)
Net healthcare result	21 690	43 850	10 719	(3)	396 118
Net impairment (losses) on financial assets	(1 222)	(1 535)	(560)	-	(22 631)
Investment income	7 985	10 035	3 663	-	147 930
Sundry income	68	122	1	-	5 356
Fair value adjustment on financial assets held at fair value through profit and loss	(1 912)	(2 386)	(877)	1	(33 639)
Asset management fees	(736)	(925)	(338)	-	(13 639)
Finance Expense	(213)	(268)	(98)	1	(3 947)
Surplus/(deficit) for the year	25 660	48 893	12 510	(1)	475 548

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

21 Critical accounting judgments and areas of key sources of estimation uncertainty

Certain critical accounting judgments in applying the Scheme's accounting policies and key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are discussed below.

The ultimate liability arising from claims made under insurance contracts

There are some sources of estimation uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for such claims. Initial estimates are made based on calculations on reported claims and derived as the claims process develops. All estimates are revised and adjusted at year-end by management. Refer to Note 7 for the method used to calculate the outstanding claims provision.

Fair value of financial assets

Refer to the accounting policy for impairment of financial assets (Note 1.7) for the criteria used to assess impairment of debt securities.

Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Scheme uses Moody's Analytics which produces a set of macroeconomic forecasts for South Africa that considers the historical accuracy of various forecasters to identify reliable sources. These are incorporated into their GCorr macroeconomic forecast set. Based on research conducted by Moody's, they recommend the use of their Baseline, Stronger Near-Term (S1) ("Bullish"), and Moderate Recession (S3) ("Bearish") forecast sets weighted 40%, 30%, 30% respectively for a forward-looking adjustment for the purposes of IFRS 9. Moody's consider both public and private South African company defaults in this research. The methodology does consider the industry of the asset and includes the calculations likely volatility of that industry to the average impact on the South African economy.

Moody's does not disclose the specific macroeconomic variables that they have found to be best predictive of changes in credit risk in South Africa but do provide indicators of the impact of certain of their measures. The South African economy experienced a sharp decline in activity in 2020 with the Q4 2019 level of GDP only due to be re-attained between Q3 2022 and Q1 2026 across the 3 scenarios. GDP growth is forecast to range from -0.40% to -3.29% across the scenarios. GDP is not the only factor that determines the extent of the adjustment but is described here to illustrate the extent of impact on the general economy that is being taken into account.

Lease liabilities

The Scheme calculates its lease liabilities on all operating leases. The future lease payments are determined for the period of lease. The net present value of the future lease payments is calculated using the incremental borrowing rate. The sum of the present value of the leases determines the lease liability. The period of the lease is three years in accordance with Scheme policy. The incremental borrowing rate was determined using information obtained from the Scheme's bankers, Nedbank, which was prime less 0.5% for computer and office equipment and less 1% for property leases (Note 3)

22 Insurance risk management

Nature and extent of risks arising from insurance contracts

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

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

22 Insurance risk management (continued)

Insurance risk - description of benefit options

The types of benefits offered by the Scheme in return for monthly contributions are a mix between traditional and savings options as indicated below:

In-hospital benefits cover all costs incurred by members, up to the member's benefit limit, whilst they are in hospital to receive pre-authorised treatment for certain medical care.

Chronic benefits provide cover to members limited to their specific options as prescribed by the chronic disease list. When limits have been reached, additional benefits per option as registered by the Council for Medical Schemes are made available to members and will be paid in accordance with Scheme rules.

Day-to-day benefits cover the cost (up to Scheme approved tariff) of all out of hospital medical attention, such as visits to general practitioners and dentists as well as prescribed non-chronic medicines.

The MediSaver and Premium Plus options include a savings benefit to cover day-to-day costs.

The above benefits are extended to the principal member and their dependents based on their elected benefit option.

Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Scheme assumes the cost of healthcare provision to members and their dependents. The risks relate to the health of the Scheme members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contracts. 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 and case management and service provider profiling.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are random by nature and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. Medical scheme regulations do not permit selection of risk by explicit risk rating, e.g. rating by age or medical health. The structuring of options enables the Scheme to attract and discourage certain risk. However all options must contain prescribed minimum benefits.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, location and demographics of members covered.

Insurance risk - Demographic Analysis

Age grouping (in years)

	Current year claims					
	2021			2020		
	Number of Beneficiaries	Claims expenditure		Number of Beneficiaries	Claims expenditure	
Male R'000		Female R'000	Male R'000		Female R'000	
< 25	51 717	181 363	176 157	54 217	162 332	168 915
26 – 35	18 351	83 982	183 220	19 954	75 112	171 248
36 – 54	42 258	262 554	330 884	29 249	225 948	297 971
55 – 65	17 879	385 173	425 702	29 499	360 308	417 624
>65	19 308	457 442	534 195	18 056	401 206	440 525
	149 513	1 370 514	1 650 158	150 975	1 224 906	1 496 283
Grand Total			3 020 672			2 721 189

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

22 Insurance risk management (continued)

Concentration of risks

The following tables summarise the concentration of insurance risk, with reference to the carrying amount of the insurance claims incurred, as determined by the service date of the claim, in relation to type of benefit provided, and by age group:

2021		<i>General Practitioners</i>	<i>Specialists</i>	<i>Dentistry</i>	<i>Optometry</i>	<i>Medicines</i>	<i>Hospital</i>	<i>Other</i>	<i>Total</i>
Age grouping (in years)		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
< 26	Gross claims	33 096	47 897	22 037	7 310	46 266	148 933	69 482	375 021
	Net claims	30 695	46 742	18 765	5 447	41 787	148 650	65 433	357 520
26 – 35	Gross claims	25 767	39 231	9 946	5 002	32 476	100 634	59 164	272 220
	Net claims	25 244	38 852	9 439	4 463	31 303	100 528	57 373	267 202
36 – 54	Gross claims	40 477	73 477	17 171	14 240	95 362	223 001	150 112	613 840
	Net claims	38 414	72 338	14 940	11 307	89 382	222 851	144 206	593 437
55 – 65	Gross claims	35 500	113 733	17 650	17 843	120 873	339 676	206 173	851 448
	Net claims	31 629	110 878	13 291	11 639	108 921	339 488	195 028	810 875
>65	Gross claims	24 976	166 183	14 764	9 346	121 015	478 998	237 661	1 052 943
	Net claims	19 980	159 544	11 811	7 477	94 911	483 699	214 216	991 638
	Gross claims	159 816	440 520	81 568	53 742	415 992	1 291 242	722 592	3 165 472
	Net claims	145 962	428 354	68 246	40 333	366 304	1 295 216	676 257	3 020 672

Gross claims are made up of claims submitted by service providers or members and include members' portion amounts. Net claims are claims settled in accordance with the rules of the scheme.

Classification of "other" includes radiology, pathology, physiotherapy and associated health services based on the extract of claims from the operating system, Nexus, used by the Scheme in 2021.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

22 Insurance risk management (continued)

Concentration of risks

The following tables summarise the concentration of insurance risk, with reference to the carrying amount of the insurance claims incurred, as determined by the service date of the claim, in relation to type of benefit provided, and by age group:

2020		<i>General Practitioners</i>	<i>Specialists</i>	<i>Dentistry</i>	<i>Optometry</i>	<i>Medicines</i>	<i>Hospital</i>	<i>Other</i>	<i>Total</i>
Age grouping (in years)		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
< 26	Gross claims	27 576	47 111	20 657	6 230	43 897	143 660	59 618	348 749
	Net claims	25 164	45 907	17 434	4 455	39 230	143 311	55 747	331 248
26 – 35	Gross claims	23 778	36 828	9 715	4 196	30 866	92 094	54 229	251 706
	Net claims	23 145	36 513	9 136	3 649	29 506	91 967	52 444	246 360
36 – 54	Gross claims	36 842	67 456	16 454	11 461	96 028	185 106	131 676	545 023
	Net claims	34 666	66 161	14 281	8 853	89 583	184 605	125 770	523 919
55 – 65	Gross claims	33 864	112 754	16 352	13 961	124 685	323 587	193 008	818 211
	Net claims	30 118	110 149	12 208	8 489	111 937	322 770	182 262	777 933
>65	Gross claims	21 126	149 090	13 549	7 170	122 189	410 279	209 278	932 681
	Net claims	15 567	143 221	7 701	2 738	95 099	398 210	179 193	841 729
	Gross claims	143 186	413 239	76 727	43 018	417 665	1 154 726	647 809	2 896 370
	Net claims	128 660	401 951	60 760	28 184	365 355	1 140 863	595 416	2 721 189

Gross claims are made up of claims submitted by service providers or members and include members' portion amounts. Net claims are claims settled in accordance with the rules of the scheme.

Classification of "other" includes radiology, pathology, physiotherapy and associated health services based on the extract of claims from the operating system, Nexus, used by the Scheme in 2020.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

22 Insurance risk management (continued)

Frequency and severity of claims

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

Sources of uncertainty in the estimation of future claim payments

The Scheme frequently re-rates its products to ensure that the necessary profitability is maintained relative to the risk exposure. It is relatively easy to assess the future claims payments since a large majority of claims are lodged soon after year end before the four-month expiration of claims period comes into effect.

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

The strategy is set out in the annual business plan, which specifies the benefits to be provided by each option, the preferred target market and demographic split thereof. The Scheme has the right to change the terms and conditions of the contracts at renewal. Management information including contribution income and claims management information including claims ratio by option and target market demographic split, is reviewed monthly.

The main risks addressed by the Scheme in determining the contribution rates and benefits of the Scheme's different options are summarised below:

- Only part of the year's data is available when the pricing exercise is performed and for the last three treatment months a substantial portion of the claims will be outstanding (i.e. either not yet submitted or submitted but not yet paid).
- Adjustments would then need to be made for outstanding claims. This would mean applying factors derived from this year's and previous year's data. There is a risk that these claims are either overstated or understated.
- Projections of claim amounts need to be made for the remainder of the current year. This would involve using seasonality adjustments, which may differ from year to year. There is a risk of the actual experience being different to the projected experience.
- Assumptions need to be made regarding future medical price inflation and increases in benefit utilisation as a result of factors such as ageing of the membership and medical advancements. There is a risk that actual experience will differ from these assumptions.
- Expenses and fees will be loaded into the contributions. The risk is that the budgeted values may differ from actual costs incurred by the Scheme.
- Implicit currency projections need to be made due to the import of medicine, medical equipment and the potential volatility of the exchange rate makes this uncertain.
- Changes in benefit design need to be allowed for. This may be difficult if the design differs significantly from that previously offered by the Scheme.
- The risk exists that the actual changes in the Scheme's and each of the option's demographic profile will differ from those allowed for in the assumptions.
- Allowance has been made for the possible effects of changes in the legislative and market environment. There is a risk that these allowances have been over or understated.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

22 Insurance risk management (continued)

Risk transfer arrangements

The Scheme entered into a capitation agreement with Netcare Hospitals (Pty) Ltd trading as Netcare 911 (refer Note 12). The capitation agreements involve transfer of risk and are, in substance, the same as a 100% quota share reinsurance treaty.

According to the terms of the capitation agreements, the suppliers provide certain minimum benefits to certain Scheme members, as and when required by the members. The Scheme does however remain liable to its members with respect to ceded insurance if any supplier fails to meet the obligation it assumes.

When selecting a supplier, the Scheme considers their relative security. The security of the supplier is assessed from public rating information where applicable and from internal investigations, and reviewed on an on-going basis.

Sensitivity of the Scheme's financial position

According to the Medical Schemes Act of 1998, the reserve levels of Schemes must be equal to or exceed 25% of net contributions (i.e. including savings contributions).

The table below indicates how sensitive the Scheme's results are to changes in the claims experience:

	Change in variable %	2021 R'000	2020 R'000
Actual surplus for the year		188 806	475 548
Surplus after change in claims experience	1% higher	219 013	502 759
Surplus after change in claims experience	1% lower	158 600	448 336

Prescribed minimum benefits (PMBs)

The Scheme has a robust process in place whereby it analyses, verifies and adjudicates PMB claims before being paid in accordance with the cost of the claim so as to, as far as possible, prevent fraudulent and incorrectly coded claims from being paid. The process followed is in line with the registered Scheme rules.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

23 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Assets as per statement of financial position

31 December 2021	R'000	R'000	R'000	R'000
Category	Loans and receivables	Financial assets	Insurance receivables	Total carrying amount
Financial assets (Note 4)	-	2 716 099	-	2 716 099
Trade and other receivables (Note 5)	(777)	-	25 510	24 732
Cash and cash equivalents (Note 6)	155 016	-	-	155 016
	154 239	2 716 099	25 510	2 895 848

31 December 2020	R'000	R'000	R'000	R'000
Category	Loans and receivables	Financial assets	Insurance receivables	Total carrying amount
Financial assets (Note 4)	-	2 245 744	-	2 245 744
Trade and other receivables (Note 5)	(323)	-	32 095	31 772
Cash and cash equivalents (Note 6)	248 207	-	-	248 207
	247 884	2 245 744	32 095	2 525 723

Liabilities as per statement of financial position

31 December 2021	R'000	R'000	R'000
Category	Financial liabilities at amortised cost	Insurance payables	Total carrying amount
Lease liabilities (Note 3)	20 206	-	20 206
Medical savings (Note 8)	159 507	-	159 507
Trade and other payables (Note 9)	81 707	83 537	165 244
	261 420	83 537	344 958

31 December 2020	R'000	R'000	R'000
Category	Financial liabilities at amortised cost	Insurance payables	Total carrying amount
Lease liabilities (Note 3)	21 072	-	21 072
Medical savings (Note 8)	164 993	-	164 993
Trade and other payables (Note 9)	60 652	106 803	167 455
	246 717	106 803	353 520

MEDSHIELD MEDICAL SCHEME

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24 Credit quality of financial instruments

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to information about counterparty default rates:

Trade receivables

Members do not have external credit ratings. The members are split between groups and private. During the 2021 financial period there were 11,091 (2020: 9,656) new members and 73,304 (2020: 76,998) that existed during the financial period. Of these 8,947 (88%) [2020: 7,472 (90%)] of the new members and 53,619 (73%) [(2020: 58,447 (76%))] existing members (older than a month) were not suspended during the financial period due to non-compliance of credit control rules. Suspension for new members was 2,144 (2020: 2,184) and for members that existed at the beginning of the year was 7,490 (2020:7,543).

31 December 2021

	R'000	R'000
	Group	Private
	members	members
Fully performing and not impaired (active members between 0 to 30 days)	7 507	9 556
Past due but not impaired (between 30 to 60 days)	486	103
Past due and impaired (60+ days for active members and all left members) *	10 335	4 588
	<u>18 328</u>	<u>14 247</u>

31 December 2020

	R'000	R'000
	Group	Private
	members	members
Fully performing and not impaired (active members between 0 to 30 days)	17 992	6 112
Past due but not impaired (between 30 to 60 days)	2 830	86
Past due and impaired (60+ days for active members and all left members) *	6 657	3 801
	<u>27 479</u>	<u>9 999</u>

* As per the credit control policy of the Scheme, only active members over 60 days and resigned members are impaired.

Cash and cash equivalents

Cash and cash equivalents are held with Nedbank and Standard Bank (Lesotho). The ratings for Nedbank as financial institutions (per Moody's rating) are P-1 for Moody's short-term rating and Ba2 for their long-term rating and for Standard Bank Lesotho are P-1 for short-term and Ba2 for long-term.

Financial assets

Credit ratings obtained for certain debt and money market instruments included in portfolio investments are

	Rating	R'000
Instruments guaranteed by the government of the RSA	zaAAA	463 071
Debt instruments - Other	zaAA	352 802
Long-term money market instruments	zaAA	235 315
		<u>1 051 189</u>

The above information was based on the average credit ratings of the instruments as communicated to the Scheme by the relevant fund managers (Sanlam, Prudential (M&G), Argon & Allan Gray). The credit ratings used by the asset managers were provided by Moody's and Standard & Poor's.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

24 Credit quality of financial instruments (continued)

Financial assets (continued)

Management is satisfied with the quality and suitability of the asset managers and their performance as mandated by the Board of Trustees.

25 Financial risk management

Financial risk management strategy and policy

The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments that the scheme holds to meet its obligations to its members. Certain risk management and investment decisions are made under the guidance policies approved by the Board of Trustees. The Board of Trustees provides written principles for risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and investing excess liquidity.

Based on the nature of the Medical Schemes industry, the assets are considered to be the capital of the Scheme. The Scheme ensures, on a monthly basis, that it complies with regulation 30 and annexure B of the Act. The current investment structure is that 30% of total assets are held in equity, 30% of total assets are held in bonds and the remainder held in interest bearing assets and other asset types.

The investment objectives are:

- to ensure that there are sufficient funds to meet benefit and operating expense commitments as they fall due;
- to make adequate provision for possible long-term adverse claim experience;
- to manage risks such as exposure to adverse exchange rates;
- to manage the risk of diversification and credit rating/evaluation of third parties;
- to satisfy regulatory requirements in respect of the Scheme's investments;
- and to achieve an investment return of CPI + 4% (net of costs) on funds held in the investment portfolio (excludes cash and money market fund balances) over a three-year rolling period, whilst minimising the potential for capital loss over any 12-month period as well as achieving a return equal to STeFi on funds held directly in cash and money market type funds.

25.1 Financial risk factors

	2021 R'000	2020 R'000
Instruments exposed to Interest rate risks	1 067 744	1 180 147
Instruments exposed to Price risk	1 648 355	1 065 597

The Scheme's activities expose it to a variety of financial risks including market risk (fair value interest rate risk, cash flow interest rate risk and price risk) credit risk and liquidity risk. The risks arise from open positions in interest rate and equity products all of which are exposed to general and specific market movements.

(i) Cash flow and fair value interest rate risk

The Scheme's investment policy is to hold the majority of its investments in interest bearing instruments. The Scheme's income and operating cash flow are therefore substantially influenced by changes in market interest rates. Investments in interest bearing instruments issued at variable rates expose the Scheme to cash flow interest rate risk (i.e., loss of income if the rates decrease and increase in income if they increase). Investments in interest bearing instruments issued at fixed rates expose the Scheme to fair value interest rate risk (i.e., movement in interest rates would have a direct effect on the fair value of the instruments).

An increase or decrease of 1% (100 basis points) in market interest rates on money market instruments and cash and cash equivalents at 31st December 2021, with all the other variables remaining constant would increase or decrease the Scheme's accumulated reserves by R 5 420 435 (2020: R 10 408 581).

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

25 Financial risk management (continued)

25.1 Financial risk factors (continued)

(ii) Price risk

The Scheme invests in equity of other entities that are publicly traded. The Scheme is exposed to equity security price risk because of investments held in equities. To manage its price risk the scheme diversifies its portfolio by including money market instruments and bonds. Diversification is in accordance with the limits set by the Scheme. The Scheme has investments exposed to equity price risk of R676 million (2019: R695 million).

(iii) Fair value market risk - sensitivity analysis: Cash

The sensitivity analysis is based on the movement of the STeFi index for the cash component of investments and cash and cash equivalents. The model used for % change in respect of a change in index return is the standard deviation (i.e., for every 1% assumed change in market value the index return would change by 1 standard deviation). A one percent increase in the investment return at the reporting date would have increased cash by R 5, 420m in 2021 (2019: R 10, 409m); an equal change in the opposite direction would have decreased cash by the same amount. These sensitivity measures are based on the average change per annum of the STeFi index over a 5-year period.

	R'000	R'000	R'000	R'000
	Current accounts	Current accounts held in escrow	Money market funds	Total Cash
31 December 2021	155 016	-	640 647	795 663
31 December 2020	247 544	663	792 651	1 040 858

31 December 2021		R'000	R'000	R'000
% Change	Index return	Adjusted closing value	Fair value impact	Accumulated funds
2.0%	7.4%	811 577	15 913	1 978 691
1.0%	6.4%	803 620	7 957	1 970 734
0.0%	5.4%	795 663	-	2 185 126
-1.0%	4.4%	787 707	(7 957)	1 954 820
-2.0%	3.4%	779 750	(15 913)	1 946 864

31 December 2020		R'000	R'000	R'000
% Change	Index return	Adjusted closing value	Fair value impact	Accumulated funds
2.0%	7.4%	1 061 675	20 817	1 983 595
1.0%	6.4%	1 051 267	10 409	1 973 186
0.0%	5.4%	1 040 858	-	1 962 777
-1.0%	4.4%	1 030 449	(10 409)	1 952 368
-2.0%	3.4%	1 020 041	(20 817)	1 941 960

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

25 Financial risk management (continued)

25.1 Financial risk factors (continued)

(iii) Fair value market risk - sensitivity analysis: Bonds

The sensitivity is based on the movement on the All-Bond index. The All-Bond index is a weighted portfolio of the bonds traded on the bond exchange. The index return is therefore measured by the price changes of quoted bonds. The model used for % change in price in respect of a change in index return is the standard deviation. (i.e., for every 1% assumed change in market value the index return would change by 1 standard deviation). The reason for using this model is due to its simplicity as a measure of variability and hence sensitivity. It is also suitable for measuring variability using past data. It is assumed that the Scheme's debt portfolio is weighted similar to the All Bond index and that standard deviation is representative of the current volatility and of the portfolio held. It is assumed that the Scheme's interest-bearing securities are weighted on a similar bases as the All-Bond index. The impact has been evaluated by looking at the change to the index return on the following 15%, 7.5% and 0% for 2021 (2020: 15%, 7.5% and 0%) applicable at 31 December for each year. These sensitivity measures are based on the average change per annum of the All-Bond index over a 5-year period.

	R'000	R'000
	Bonds	Total Bonds
31 December 2021	427 096	427 096
31 December 2020	387 496	387 496

31 December 2021		R'000	R'000	R'000
% Change	Index return	Adjusted closing value	Fair value impact	Accumulated funds
15.0%	23.7%	491 161	64 064	2 026 841
7.5%	16.2%	459 128	32 032	1 994 810
0.0%	8.7%	427 096	-	2 185 126
-7.5%	1.2%	395 064	(32 032)	1 930 745
-15.0%	-6.4%	363 032	(64 064)	1 898 713

31 December 2020		R'000	R'000	R'000
% Change	Index return	Adjusted closing value	Fair value impact	Accumulated funds
15.0%	23.7%	445 620	58 124	2 020 901
7.5%	16.2%	416 558	29 062	1 991 840
0.0%	8.7%	387 496	-	1 962 777
-7.5%	1.2%	358 434	(29 062)	1 933 715
-15.0%	-6.4%	329 371	(58 124)	1 904 653

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

25 Financial risk management (continued)

25.1 Financial risk factors (continued)

(iii) Fair value market risk - sensitivity analysis: Equities

The sensitivity analysis is based on the movement of the Weighted All share Index. The All-Share Index is a weighted portfolio of all the listed shares traded on the JSE. The index return is therefore measured by the price changes of quoted shares. The model used for % change in respect of a change in index return is the standard deviation (i.e., for every 1% assumed change in market value the index return would change by 1 standard deviation). The reason for using this model is due to its simplicity as a measure of variability and hence sensitivity. It is also suitable for measuring variability using past data. It is assumed that the Scheme's equity portfolio is weighted similar to the All Share index and that standard deviation is representative of the current volatility and of the portfolio held. The impact has been evaluated by looking at the change to fair value based on the following percentage changes of 30%, 20% and 10% for the year ending 31 December 2021 (30%, 20% and 10% for the year ending 31 December 2020). These sensitivity measures are based on the average change per annum of the All-Share index movement over a 5-year period.

	R'000	R'000
	Equities	Total Equities
31 December 2021	1 648 355	1 648 355
31 December 2020	1 065 597	1 065 597

31 December 2021		R'000	R'000	R'000
% Change	Index return	Adjusted closing value	Fair value impact	Accumulated funds
30%	37.0%	2 142 862	1 077 265	3 262 391
20%	27.0%	1 978 026	912 429	3 097 555
10%	17.0%	1 813 191	747 594	2 932 721
0%	7.0%	1 648 355	-	2 185 126
-10%	-3.0%	1 483 520	417 923	2 603 049
-20%	-13.0%	1 318 684	253 087	2 438 214
-30%	-23.0%	1 153 849	88 251	2 273 378

31 December 2020		R'000	R'000	R'000
% Change	Index return	Adjusted closing value	Fair value impact	Accumulated funds
30%	37.0%	1 385 277	319 679	2 282 456
20%	27.0%	1 278 717	213 119	2 175 896
10%	17.0%	1 172 157	106 560	2 069 338
0%	7.0%	1 065 597	-	1 962 777
-10%	-3.0%	959 038	(106 560)	1 856 217
-20%	-13.0%	852 478	(213 119)	1 749 659
-30%	-23.0%	745 918	(319 679)	1 643 098

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

25 Financial risk management (continued)

25.1 Financial risk factors (continued)

(iv) Currency risk

The Scheme operates in South Africa and therefore its cash flows are denominated in South African Rand (ZAR). The exposure of the Scheme's solvency to foreign currency movements was 8.5% (2020: 8.77%). This was due to the Scheme's assets being invested in bonds, cash and money market instruments on international markets. The Scheme's reserves are managed in compliance with Regulation 30, which limits offshore exposure and excludes investment in offshore equities. The Scheme's underlying investment portfolios can, and will, hold Rand hedge securities.

(v) Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt financial assets carried at fair value through profit and loss (FVTPL) and debt financial assets carried at fair value through other comprehensive income (FVTOCI), as well as credit exposures to members, including outstanding receivables (insurance and non-insurance).

a) Risk management

Credit risk is managed on a Scheme level. For financial assets, the Scheme invests only in those financial instruments that are in compliance with Regulation 30 of the Act. Cash and financial asset transactions are limited to high credit quality institutions with high credit ratings. The Scheme manages the credit risk specifically relating to trade and other receivables, by ensuring it applies a clearly defined credit policy per category of debtor. For credit quality assessment of financial assets refer to Note 25.

In terms of the Act, contributions are required to be settled within three days after they become due. Direct paying members (DPM's) are invoiced in advance and if they are cash paying, they are suspended after 30 days if the contribution is not received. DPM's paying via debit order are suspended when the debit order is rejected, thereby reducing credit risk. Groups are suspended after thirty days. There is significant concentration of credit risk through exposure to the mining industry.

The Scheme's investments in debt instruments are considered to be low risk investments. The credit ratings of the investments are monitored for credit deterioration.

b) Impairment of financial assets

The Scheme has two types of financial asset that is subject to the expected credit loss model, being debt investments carried at fair value through other comprehensive income (FVTOCI), and debt investments carried at fair value through profit and loss (FVTPL):

Insurance and non-insurance trade & other receivables are subject to the impairment requirements of IFRS9 and the impairment losses have been included in Note 14.

While cash and cash equivalents are also subject to the impairment requirements of IFRS9, the identified impairment loss was immaterial.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

25 Financial risk management (continued)

25.1 Financial risk factors (continued)

(v) Credit risk (continued)

Debt investments at fair value through other comprehensive income

Expected credit losses on the debt investments (fixed income investments) and money market investments were measured on the general approach. The general approach of IFRS9 requires an assessment of the relevant stage. For stage 1 assets, one-year credit losses are measured. For stage 2 & 3 assets, lifetime losses are applied. An asset would normally be in stage 1 upon acquisition and move to stage 2 if there is a significant increase in credit risk (SICR).

The trigger for a SICR is a downgrade of the international scale rating by 2 notches or more since the acquisition of the asset by Moody's Investor Services. All the issuers or assets had ratings. Where available, ratings from Moody's Investors Service were used but if not available from S&P Global followed by Fitch Ratings followed by Global Credit Ratings were used. All ratings were converted to the equivalent Moody's rating. Where only rated by Global Credit Ratings, a one notch haircut was performed to take into account the lack of mapping from the rating scale to a probability of default. Where only local scale ratings were available, these were mapped to international scale ratings so that a probability of default could be associated with the rating. For certain of the assets, ratings had been assigned to the specific instrument. All assets that were subordinated have instrument specific ratings. All the assets without instrument specific ratings were senior bonds and the senior unsecured rating was applied.

All of the Scheme's debt investments carried at fair value through other comprehensive income are considered to have low credit risk. All the instruments are listed on the Johannesburg Stock Exchange (JSE) and all have credit ratings. Debt investments are managed by the relevant asset managers. Due to the two-notch downgrade, thus triggering a SICR, there was a loss allowance recognised during the period. The loss allowance for debt investments at FVTOCI is recognised in profit or loss and in the fair value through other comprehensive reserve (debt).

The loss allowance for debt investments at FVTOCI as at 31 December reconciles to the opening loss allowance as follows:

	2021	2020
	R'000	R'000
Loss allowance at at 1 January 2021	22 631	-
Increase in loan loss allowance recognised in profit or loss during the year	5 401	22 631
Closing loss allowance as at 31 December 2021	<u>28 032</u>	<u>22 631</u>

The Scheme's principal financial assets are cash and cash equivalents, trade and other receivables, financial assets through OCI and financial assets through profit and loss. The amounts presented in the statement of financial position are net of impairments. An impairment is made where there is an identified loss event which, based on previous experience is evidence of a reduction in the recoverability of the cash flows. Cash and financial asset transactions are limited to high credit quality financial institutions with high credit ratings. The Scheme manages the credit risk specifically relating to trade and other receivables, by ensuring it applies a clearly defined credit policy per category of debtor. For credit quality assessment of financial assets refer to note 24.

The ageing of trade and other receivables has been included in Note 24. The provision for impairment losses has been included in Note 14.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

25 Financial risk management (continued)

Financial assets at fair value through profit or loss

The Scheme is also exposed to credit risk in relation to debt investments that are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments R705m (2020 - R786m).

(vi) Liquidity risk

Liquidity risk is the risk that the Scheme will not have sufficient liquid funds available to settle financial obligations as they fall due. The financial liabilities have been aged according to cash requirements to service the debt. The short-term financial liabilities of the Scheme consist of claims made by members which have not been processed by the Scheme, savings refundable to members, claims payable to members and service providers processed by the Scheme at year end. The outstanding claims provision is based on contractual agreements between the Scheme and its members and is not discounted. The Scheme performs a monthly cash forecast (managed on a daily basis) based on cash requirements to service short-term financial liabilities and payment of expenses. Prudent liquidity management implies maintaining sufficient cash and marketable securities. The availability of funding through liquid holding cash positions with various financial institutions ensures that the Scheme has the ability to fund its day-to-day operations.

31 December 2021

	R'000	R'000	R'000	R'000	R'000	R'000
LIABILITIES	Up to 1 month	1-3 Months	Between 3 months and a year	Between 1 and 5 years	Over 5 Years	Total
Current liabilities						
Lease liability (Note 3)			19 662	544		20 206
Outstanding claims provision (Note 7)	101 915	65 559	51 526	-	-	219 000
Medical savings (Note 8)	-	159 507	-	-	-	159 507
Trade and other payables (Note 9)	165 244	-	-	-	-	165 244
Total liabilities	267 159	225 066	71 188	544	-	563 957
Financial assets	1 382 063	73 023	343 637	442 334	475 043	2 716 099

31 December 2020

	R'000	R'000	R'000	R'000	R'000	R'000
LIABILITIES	Up to 1	1-3 Months	Between 3	Between 1	Over 5 Years	Total
Current liabilities						
Lease liability (Note 3)			19 841	1 231		21 072
Outstanding claims provision (Note 7)	103 638	54 418	16 944	-	-	175 000
Medical savings (Note 8)	-	164 993	-	-	-	164 993
Trade and other payables (Note 9)	167 455	-	-	-	-	167 455
Total liabilities	271 093	219 411	36 785	1 231	-	528 520
Financial assets	1 049 835	68 186	234 571	481 341	411 811	2 245 744

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

25 Financial risk management (continued)

25.1 Financial risk factors (continued)

(vi) Liquidity risk (continued)

A significant portion of the Scheme's investments are exposed to the change in the market interest rates.

The table below summarises the Scheme's exposure to interest rate and price risks based on the maturity dates of the relevant investment.

31 December 2021

	R'000	R'000	R'000	R'000	R'000	R'000
	Up to 1 month	1-3 Months	Between 3 months and a year	Between 1 and 5 years	Over 5 Years	Total
ASSETS						
Financial assets (Note 4)	1 382 063	73 023	343 637	442 334	475 043	2 716 099
Cash and cash equivalents (Note 6)	155 016	-	-	-	-	155 016
	<u>1 537 079</u>	<u>73 023</u>	<u>343 637</u>	<u>442 334</u>	<u>475 043</u>	<u>2 871 116</u>

31 December 2020

	R'000	R'000	R'000	R'000	R'000	R'000
	Up to 1 month	1-3 Months	Between 3 months and a year	Between 1 and 5 years	Over 5 Years	Total
ASSETS						
Financial assets (Note 4)	1 049 835	68 186	234 571	481 341	411 811	2 245 744
Cash and cash equivalents (Note 6)	248 207	-	-	-	-	248 207
	<u>1 298 042</u>	<u>68 186</u>	<u>234 571</u>	<u>481 341</u>	<u>411 811</u>	<u>2 493 951</u>

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

25 Financial risk management (continued)

25.1 Financial risk factors (continued)

(vi) Liquidity risk (continued)

Fair value estimates

Refer to Note 1.7 regarding the determination of financial assets.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year approximate their fair values.

Investment in structured entity

The exposure to investments in Investee Funds at fair value, by strategy employed, is disclosed in the following table.

These investments are included in financial assets in the statement of financial position.

2021

<i>Strategy</i>	<i>Number of investee funds</i>	<i>Net asset value of investee fund (range and weighted average) R'000</i>	<i>Fair value of fund's assets of investment R'000 *</i>	<i>% of net assets attributable to holders of redeemable shares **</i>
Stanlib Corporate Money Market Fund B4	832	68 182 160	197 182	0.29%
Stanlib Enhanced Yield Fund B3 (Previously Cash Plus)	710	4 125 092	132 695	3.22%
Allan Gray Life Stable Medical Scheme Portfolio	16	2 705 292	626 975	28.08%
Total	726	6 830 384	759 671	11.12%

2020

<i>Strategy</i>	<i>Number of investee funds</i>	<i>Net asset value of investee fund (range and weighted average) R'000</i>	<i>Fair value of fund's assets of investment R'000 *</i>	<i>% of net assets attributable to holders of redeemable shares **</i>
Stanlib Corporate Money Market Fund B4	398	48 160 700	134 668	0.28%
Stanlib Enhanced Yield Fund B3 (Previously Cash Plus)	772	5 037 312	127 090	2.52%
Allan Gray Life Stable Medical Scheme Portfolio	19	2 420 723	538 636	27.50%
Total	791	7 458 035	665 727	8.93%

The fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market closing prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

25 Financial risk management (continued)

25.1 Financial risk factors (continued)

(vi) Liquidity risk (continued)

The fair values of other financial assets are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Fair value measurements recognised in the statement of financial position (Fair value hierarchy)

For financial assets measured at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Level 1 fair value measurement represents those assets which are measured using unadjusted quoted market closing prices in an active market for identical assets.

At 31 December 2021, investments classified as Level 1 comprise approximately 56% (2020: 53%) of financial assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include exchange traded prices of fixed maturities and equity securities.

Unit linked funds usually have a published price used for the previous day's transactions. Where the valuation of the instrument is based on these observable unit prices with no significant unobservable inputs and there are sufficient transactions to meet the definition of a quoted price in an active market, it is likely to be classified as Level 1. However, if an insurer calculates the liability without reference to the published price, it will fall into Level 2 or 3. Where the valuation of the liability incorporates significant inputs influenced by management's assumptions, such as tax adjustments not reflected in the observable price or underlying assets and liabilities, this is likely to be a Level 3 classification.

Listed debt securities such as Government securities and corporate bonds may be classified as Level 1 or 2 depending on trade frequency and data availability.

At 31 December 2021, investments classified as Level 2 comprise approximately 44% (2020: 47%) of financial assets measured at fair value on a recurring basis. They primarily include Government and Agency securities and certain corporate debt securities, such as private fixed maturities. As market quotes generally are not readily available or accessible for these securities, their fair value measures are determined utilising relevant information generated by market transactions involving comparable securities. Inputs other than quoted prices that are observable for the assets either directly (as prices) or indirectly (derived from prices) are applied.

Observable inputs generally used to measure the fair value of securities classified as Level 2 include benchmark yields, reported secondary trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. Additional observable inputs are used when available, and as may be appropriate, for certain security types, such as pre-payment, default and collateral information for purpose of measuring the fair value of mortgage and asset-backed securities.

Level 3 fair value measurements apply inputs which are not based on observable market data. Private equity securities usually are priced based on unobservable market data and are not easily tradable and are therefore likely to be classified as Level 3. These are often based on model pricing techniques that effectively discount prospective cash flows to present value using appropriate sector-adjusted credit spreads commensurate with the security's duration, also taking into consideration issuer specific credit quality and liquidity. These valuation methodologies have been studied and evaluated by the asset manager and the resulting prices determined to be representative of exit values.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

26 Restatement of Statement of Cash Flows

The Council for Medical Schemes (CMS) issued Circular 52 of 2021: Statement of Cash Flows on 27 September 2021; which requires schemes in terms of section 37(2) to report cash flows from operating activities using the direct method in their Statement of Cash Flows in their financial statements of the year ended 31 December 2021 onwards.

This is in line with Paragraph 19 of IAS 7: Statement of Cash Flows which encourages entities to report cash flows from operating activities using the direct method.

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

In addition, an amount of R291 thousand, representing the movement in impairments on trade and other receivables, was classified incorrectly within cash flows from investing activities.

The 2020 period has been restated as follows to reflect these changes:

Cash flow statement	Note	Previously stated 2020 R'000	Restated 2020 R'000	Change R'000
Cash flows from operating activities				
Cash receipts from members and providers		-	3 738 844	3 738 844
- Cash receipts from members – contributions		-	3 733 589	3 733 589
- Cash receipts from members and providers – other		-	5 255	5 255
Cash paid to providers, employees and members		-	(3 335 612)	(3 335 612)
- Cash paid to providers and members – claims		-	(3 005 216)	(3 005 216)
- Cash paid to providers and employees – non-healthcare expenditure		-	(330 396)	(330 396)
Cash paid to members – savings plan refunds		-	(9 467)	(9 467)
Cash generated from/(used in) operations		-	393 765	393 765
- Interest received on cash and cash equivalents		-	1 855	1 855
- Interest paid		-	(3 947)	(3 947)
Net cash flows generated from operations	18	390 107	391 673	(1 566)
Interest on cash and cash equivalents	15	1 855	-	1 855
		391 962	391 673	291
Cash flows from investing activities				
Acquisition of property, plant & equipment	2	(1 613)	(1 613)	-
Purchase of fair value through OCI financial assets	4	(1 114 266)	(1 113 975)	(291)
Proceeds on disposals of fair value through OCI financial assets	4	790 156	790 156	-
Dividends		26 058	26 058	-
Interest		20 488	20 488	-
Net cash flow utilised from investing activities		(279 177)	(278 886)	(291)
Cash flows from financing activities				
Capital lease payments		(21 771)	(21 771)	-
Net cash flow utilised in financing activities		(21 771)	(21 771)	-
Net (decrease) in cash and cash equivalents		91 014	91 014	-
Cash and cash equivalents at beginning of year		157 193	157 193	-
Cash and cash equivalents at end of year	6	248 207	248 207	-

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

26 Restatement of Statement of Cash Flows (continued)

Cash flow statement (continued)

Cash generated by operations	18	Previously stated 2020 R'000	Restated 2020 R'000	Change R'000
Surplus for the year		475 548	-	(475 548)
<i>Adjustments in respect of non-cash items and items relating to investing activities :</i>		(76 186)	-	76 186
Outstanding claims provision		(25 000)	-	25 000
Asset management fees		11 036	-	(11 036)
Investment income		(147 930)	-	147 930
Net impairment losses on healthcare receivables		3 234	-	(3 234)
Fair value adjustment for financial assets fair valued through profit and loss		33 639	-	(33 639)
Depreciation		26 204	-	(26 204)
Net impairment losses on financial assets		22 631	-	(22 631)
<i>Subtotal</i>		399 362	-	(399 362)
Working capital changes				
(Increase) in trade and other receivables		(2 200)	-	2 200
Increase in trade and other payables		(7 596)	-	7 596
Net impairment losses on healthcare receivables		(2 945)	-	2 945
(Decrease) in personal medical savings account trust liability		3 486	-	(3 486)
Total		390 107	-	(390 107)

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

27 Non Compliance with Medical Schemes Act and Regulations

27.1 Contributions not received within the time stipulated by the Act

Nature of the non-compliance

Section 26(7) of the Act states that: All subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becomes due.

Impact

Risk of paying claims where no contributions were received or possible bad debts as a result of not collecting the contributions on time.

Cause of the non-compliance

There were some instances noted where the contributions were not received within three days of becoming due.

Corrective course of action

Strict credit control procedures are in place to prevent loss to the Scheme. Members and employers are continuously reminded via sms and email to submit payment. Non-payment will result in the suspension of the account and no claims are paid until the account is brought up to date.

27.2 Claims payments made in excess of 30 days since receipt thereof

Nature of the non-compliance

Section 59(2) of the Act states : "A medical scheme shall, in the case where an account has been rendered, subject to the provisions of this Act and the rules of the medical scheme concerned, pay to a member or a supplier of service, any benefit owing to that member or supplier of service within 30 days after the day on which the claim in respect of such benefit was received by the medical scheme."

Impact

Members might be charged interest on the late payment of accounts by the healthcare professionals.

Cause of the non-compliance

These instances normally arise mainly due to queries on the accounts submitted and further investigation is required to ensure that claims are processed. In these exceptional cases claims were paid later than 30 days after date of submission. However, there are two main process issues that will arise every year; firstly, PMB claim reversals and corrections will always breach 30 days because of the nature of the claim and secondly, there are technical system issues which result in development. This leads to claims being put on hold until the development is implemented, leading to certain claims breaching the 30 day payment requirement.

Corrective course of action

The Scheme has an adequate process in place to ensure adequate assessment and authorisation of these claims.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

27 Non Compliance with Medical Schemes Act and Regulations (continued)

27.3 Loss making options

Nature of the non-compliance

Section 33(2) of the Act states : "The Registrar shall not approve any benefit option under this section unless the Council is satisfied that such benefit option -

- (a) includes the prescribed benefits;
- (b) shall be self-supporting in terms of membership and financial performance;
- (c) is financially sound; and
- (d) will not jeopardise the financial soundness of any existing benefit option within the medical scheme."

Five of the Scheme's options incurred a net healthcare result deficit.

Impact

Benefit options will not be self-sustainable.

Cause of the non-compliance

The two efficiency discount options, MediPlus Compact and MediValue Compact, were introduced in 2020 at a low contribution rate, which resulted in a net healthcare result deficit from prior year. This trend has continued in the current year with the addition of the MediPhila, MediCore and Premium Plus options reporting a deficit net healthcare result. This is mainly due to the actual membership numbers not being as high as budgeted therefore resulting in lower contribution income for these options compared to the higher claims ratios.

Corrective course of action

The Scheme, in conjunction with the Scheme's actuaries, constantly reviews the performance of these options, and after taking all factors into consideration, contributions and benefits are adjusted accordingly on an annual basis in the normal course of business. Furthermore, the Scheme undertook a review in early 2019 to specifically address Scheme sustainability and a significant part of this work will encompass loss-making options and effective management of healthcare expenditure. The Scheme intends to achieve option self-sustainability in the medium term as per the Scheme's 5-year sustainability plan.

27.4 Direct or indirect investments in other medical scheme administration companies & participating employers

Nature of the non-compliance

Section 35(8) of the Act states : "A Medical Scheme shall not invest any of its assets in the business of any other medical scheme or administrator or employer who participates in the medical scheme".

Impact

Direct equity investment holdings in holding companies of medical scheme administrators.

Cause of the non-compliance

This is as a result of the mandate given to the asset managers by the Scheme, who have the discretion to invest in any approved instrument, in terms of Regulation 30.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

27 Non Compliance with Medical Schemes Act and Regulations (continued)

27.4 *Direct or indirect investments in other medical scheme administration companies & participating employers*

Corrective course of action

The Scheme has obtained exemption from the Council for Medical Schemes for this non-compliance. This exemption expires on the 30 November 2022.

27.5 *Encumbered Assets*

Nature of the non-compliance

Section 35(6) of the Act states : "A Medical Scheme shall not encumber its assets"

Impact

Cash and cash equivalents are encumbered as guarantees in respect of the deposit made to the South African Post Office and Yieldex Trading (Pty) Ltd.

Cause of the non-compliance

The deposit was required by the South African Post Office in order to conduct business with them. Yieldex (Pty) Ltd required the guarantee in terms of their standard contract.

Corrective course of action

The Scheme has obtained exemption from the Council for Medical Schemes for this non-compliance. This exemption expires on 04 November 2023.

27.6 *Netcare 911 capitation agreement for the provision of emergency medical services*

Nature of the non-compliance

Regulation 7 defines a Designated Service Provider ("DSP") and Prescribed Minimum Benefits ("PMBs"):

Designated Service Provider means a health care provider or a group of providers selected by the medical scheme concerned as the provider or providers to provide its members diagnosis, treatment and care in respect of one or more prescribed benefit conditions;

Prescribed Minimum Benefit (PMB) condition means a condition contemplated in the Diagnosis and Treatment Pairs listed in Annexure A or any emergency medical condition;

Section 15A(1) If a medical scheme provides benefits to its beneficiaries by means of a managed health care arrangement with another person -

- a. the terms of that arrangement must be clearly set out in a written contract between parties;*
- b. with effect from 1 January 2004, such arrangement must be with a person who has been granted accreditation as a managed health care organisation by the Council; and*
- c. Such arrangement must not absolve a medical scheme from its responsibility towards its members if any other party to the arrangement is in default with regard to the provisions of any service in terms of such agreement.*

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

27 Non Compliance with Medical Schemes Act and Regulations (continued)

27.6 Netcare 911 capitation agreement for the provision of emergency medical services

Impact

On or about June 2015, the Scheme entered into a contract with Netcare 911 for the provision of emergency medical services based on a capitated arrangement and in terms of the agreement Netcare was appointed as a DSP of the Scheme. CMS issued a ruling on 22 December 2017 whereby the agreement is sanctioned (not valid) by regulation 8 and 15F of the Act. The contract expired on 31 December 2017. The Scheme contracted with Netcare 911 on a month to month basis in 2020, while a new arrangement was being formulated. This contract was still in effect during 2021.

Cause of the non-compliance

Netcare 911 is not accredited and therefore cannot be appointed as a DSP under a capitation agreement. The capitation agreement transfers the risk to the service provider which should only occur with a managed healthcare organisation that is accredited by the Council.

Corrective course of action

The Scheme acknowledged the Registrar's ruling and informed CMS that it would abide by it. The Scheme engaged with the CMS with regard to the matter and a way forward is being determined on how the Scheme will implement business process changes to ensure compliance with the Act going forward. The Scheme is currently contracted with Netcare 911 on a month-to-month basis, while a new arrangement is being formulated.

27.7 Contingent fee based arrangements

Nature of the non-compliance

Section 26(5) of the Act states – No payment in whatever form shall be made by a medical scheme directly or indirectly to any person as a dividend, rebate or bonus of any kind whatsoever.

Impact

The Scheme has paid Medscheme Holdings (Pty) Ltd recovery fees of R4 006 367 since inception of the contract, commencing 1 January 2019.

Cause of the non-compliance

The Scheme received a letter from the Council of Medical Schemes on 2 July 2020, where they have made certain enquiries and concluded that clause 3 of Annexure "B" of the contract which, provides for additional payments to Medscheme by Medshield in the following terms, contravenes S26(5).

Clause 3 of Annexure "B" of the contract provides for additional payments in the following terms: "*In addition, Medshield shall pay Medscheme a quarterly incentive fee of 25% excluding VAT for all successful recoveries performed on behalf of the Scheme.*"

The Council goes on to state "It is our view that clause 3 payments constitute a form of a bonus".

Corrective course of action

In 2020, the Scheme obtained legal opinion and is appealing the Council's ruling. At date of reporting, the Council for Medical Schemes has not confirmed the date for the Section 49 hearing and therefore the matter is held in abeyance. The Scheme has, irrespective, resolved not to enter into any further contracts with contingent fee based arrangements.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

28 Going Concern

The Board of Trustees remains confident in the financial position of the Scheme and believes that the Scheme is sustainable. At reporting date, the Scheme had a AA- credit rating with a stable outlook, as assessed by the Global Credit Rating. The Scheme has sufficient liquid investments to fund operations for the foreseeable future. The Scheme's solvency ratio was 57.4%; well above the statutory minimum of 25% as prescribed by the Medical Schemes Act of 1998, as amended.

29 Events After the Reporting Period

Economic impact of the Russian-Ukrainian conflict

Political and Economic experts have warned that the current crisis between Russia and Ukraine could increase hunger and food insecurity for already impoverished communities across Africa. Most African countries, including South Africa, import wheat, vegetable oil, and other consumer products from Ukraine and Russia, a region now engulfed in conflict since Russia's invasion of Ukraine. Our country's net imports from Ukraine amongst others include cereals, machinery, nuclear reactors, boilers, milling products, malts, starches, wheat and vegetable oils, amounting to an estimated \$24 million US Dollars. This is a clear indication that food security, power supply and manufacturing products will detrimentally affect the South African economy, which is in an already desperate need of restructuring and direct foreign investment. Russian and Ukrainian wheat, sunflower oil, and allied products has been supplied to the South African market since the dawn of democracy and establishment of these trade deals. South African crude oil and gas imports are affected to a lesser extent, as both countries are not dominant suppliers to our country, however the monetary implications of the supply shortage to meet global demands will impact the value of these products within South Africa.

In consultation with sector leader and experts, the Scheme is monitoring and considering the potential impact of the Russia/Ukraine conflict and consequences to the South African economy, in addition to developments in respect of mutations of the Corona virus. All healthcare funders in South Africa will have to consider the impact of this on its members. This is a non-adjusting event in the annual financial statements of the Scheme.

Chief Financial Officer leaving employ of the Scheme

The Chief Financial Officer (CFO) and the Scheme have mutually agreed to terminate the CFO's employment with the Scheme, effective 28 February 2022. At reporting date, Ms Wendy Nkambule served as the Acting CFO.

Head Office Relocation

On 18 March 2022, the Board approved the relocation of the Scheme's Head Office from 288 Kent Avenue, Randburg, to 192 on Bram situated at 192 Bram Fischer Drive, Ferndale. The Scheme has signed a 5-year lease with Investec Property Fund Limited (the Landlord), effective 01 July 2022 in this regard.

Other Matters

There are no other matters that have occurred subsequent to the financial year-end that materially affected the Financial Statements that the Board of Trustees believes should be brought to the attention of the members of the Scheme.