

NETCARE MEDICAL SCHEME

REGISTRATION NUMBER: 1584

ANNUAL REPORT

31 December 2022

NETCARE MEDICAL SCHEME

ANNUAL REPORT

for the year ended 31 December 2022

The reports and statements set out below comprise the annual financial statements and Report of the Board of Trustees:

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NETCARE MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2022

DESCRIPTION OF THE MEDICAL SCHEME

The Netcare Medical Scheme (the "Scheme") is a not for profit restricted membership South African Medical Scheme, registered in terms of the Medical Schemes Act 131 of 1998, as amended (the "Act").

The Scheme provides benefits to its members in a two-tier benefit structure, namely insured (risk) benefits and medical savings benefits, under a single benefit option, the Savings Option. As with previous years, the Scheme entered into a risk transfer arrangement with Netcare 911, further details of which are set out in Note 11 to the annual financial statements.

BOARD OF TRUSTEES IN OFFICE DURING THE YEAR UNDER REVIEW

| | | |
|-------------------------|----------------------------|--------------------------|
| S Khoosal (Chairperson) | Appointed 1 September 2020 | Employer Trustee |
| S Khuboni | Appointed 1 August 2017 | Employer Trustee |
| S Pretorius | Appointed 19 June 2013 | Employer Trustee |
| P Seetul | Appointed 1 August 2018 | Employer Trustee |
| S Vilakazi | Appointed 1 March 2019 | Employer Trustee |
| N Ndzwayiba | Appointed 1 September 2020 | Employer Trustee |
| A Boers | Appointed 19 June 2013 | Member Trustee |
| D Longueira | Appointed 1 June 2014 | Member Trustee |
| C Maslo | Appointed 12 May 2016 | Member Trustee |
| E Michen | Appointed 12 May 2016 | Member Trustee |
| E van Rooyen | Appointed 4 June 2021 | Member Trustee |
| Z Mani | Resigned 28 February 2022 | Member Trustee |
| S Machaba | Appointed 28 July 2022 | Member Trustee |
| M Botha | Appointed 28 July 2022 | Alternate Member Trustee |

PRINCIPAL OFFICER

C Taylor
P O Box 1829
Witkoppen
2068

REGISTERED OFFICE AND POSTAL ADDRESS OF THE SCHEME

Registered Office

76 Maude Street
Sandton
2196

Postal Address

Private Bag X13
Rivonia
2128

ADMINISTRATOR

Discovery Health (Pty) Ltd
1 Discovery Place
Sandton
2146

PO Box 786722
Sandton
2146

MANAGED CARE PROVIDER

Discovery Health (Pty) Ltd
1 Discovery Place
Sandton
2146

PO Box
786722
Sandton
2146

NETCARE MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)

for the year ended 31 December 2022

INVESTMENT MANAGERS

Allan Gray Life Ltd
Beach Road
V & A Waterfront
Cape Town
8081

Coronation Life Assurance Company Ltd
Boundary Terraces
1 Mariendahl Lane
Newlands
7700

Investec Assurance Ltd
36 Hans Strijdom Avenue
Foreshore
Cape Town
8001

M&G Investment Managers (Pty) Ltd
7th Floor Protea Place
30 Dreyer Street
Claremont
7708

INVESTMENT CONSULTANTS

Willis Towers Watson (Pty) Ltd
Floor 2 Illovo Edge
1 Harries Road
Illovo, Johannesburg
2196

AUDITOR

Deloitte & Touche
5 Magwa Crescent
Waterfall City
Johannesburg
Gauteng
2090

INVESTMENT STRATEGY OF THE SCHEME

The Scheme's investment objectives are to maximise the return on its investments on a long-term basis at minimal risk. The investment strategy takes into consideration both constraints imposed by legislation and those imposed by the Board of Trustees (the "Trustees").

The investment committee met 4 times during 2022. The mandate of the committee is to ensure that:

- the Scheme remains solvent;
- investments are placed at minimum risk with the best possible return;
- investments made are in compliance with the regulations of the Act; and
- a risk assessment is performed with feedback to the Trustees with recommendations.

The Trustees continued to invest funds in line with the requirements of the Act.

NETCARE MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)

for the year ended 31 December 2022

Investments of the Scheme are maintained in various accounts under the daily cash management services provided by the investment consultant and the administrator. The Scheme also has funds invested in other portfolios:

- Allan Gray Life - Domestic Stable Medical Scheme Portfolio;
- Coronation Life - Coronation Medical Aid Portfolio;
- Ninety One - Stable Money Market Fund; and
- M&G Life Inflation Plus 5% Medical Aid Fund UPF.

The Scheme ring-fenced the members' savings account balances in the Ninety One Stable Money Market Fund noted above.

SOLVENCY RATIO

| The solvency ratio is calculated on the following basis: | 2022 Rands | *Restated 2021 Rands |
|---|---------------|----------------------------|
| Accumulated funds | 590,666,900 | 542,141,610 |
| Less: unrealised gains | (62,889,694) | (53,518,938) |
| Accumulated funds per Regulation 29 of the Act | 527,777,206 | 488,622,672 |
| Gross contributions (note 9 to the annual financial statements) | 1,073,833,440 | 1,048,961,860 |
| Solvency ratio based on gross contributions = Accumulated funds/Gross annual contribution income x 100 | 49.1% | 46.6% |

Movements in the accumulated funds are set out in the statement of changes in funds and reserves in the annual financial statements. The required accumulated funds ratio according to the Act is 25%.

*Refer to note 2 of the annual financial statements

REVIEW OF THE YEAR'S ACTIVITIES

The Scheme recorded a surplus for the year after investment income and its solvency ratio increased by 2.6%. Membership has increased by 0.6%.

The Scheme ended the financial year with a surplus after investment income of R 48,525,290 (2021: R67,740,983). The surplus after investment income was taken into account in determining the solvency target for 2022 as well as the contribution increases.

The results of the Scheme are set out in the attached annual financial statements, and the Trustees believe the information contained in the annual financial statements fairly presents the financial position of the Scheme at year end.

OPERATIONAL STATISTICS

| | 2022 | 2021 | % Variance |
|--|---------|---------|---------------|
| Number of members at the end of the accounting period* | 16,513 | 16,419 | 0.57% |
| Number of beneficiaries at the end of the accounting period* | 32,721 | 32,989 | -0.81% |
| Average number of members for the accounting period | 16,296 | 16,580 | -1.71% |
| Average number of beneficiaries for the accounting period | 32,475 | 33,520 | -3.12% |
| Average risk contribution per beneficiary per month (pbpm) | R2,344 | R2,218 | 5.66% |
| Pensioner ratio (beneficiaries age > 65) | 5.67% | 5.47% | 3.66% |
| Average age per beneficiary | 31.96 | 31.73 | 0.72% |
| Relevant healthcare expenditure per average beneficiary | R2,195 | R2,096 | 4.74% |
| Non healthcare expenditure per average beneficiary | R102 | R97 | 6.16% |
| Average accumulated funds per member at the end of the accounting period | R35,770 | R33,019 | 8.33% |
| Dependants per member at the end of the accounting period | 0.98 | 1.01 | -2.74% |
| Return on investments as a % of investments | 7.60% | 19.24% | -60.51% |
| Relevant healthcare expenditure as a percentage of risk contributions | 93.65% | 94.47% | -0.87% |

*This decline was as a result of employer staff losses during the period, as a result of skills shortage within the healthcare industry.

NETCARE MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)

for the year ended 31 December 2022

BOARD OF TRUSTEES AND SUB-COMMITTEES MEETING ATTENDANCES

The following schedule sets out the composition of the Trustees and sub-committees, and their respective meeting attendances. None of the Trustees are remunerated for their participation on the Board.

| | Board Meeting | | Investment Committee Meeting | | Audit Committee Meeting | |
|---|---------------|---|------------------------------|---|-------------------------|---|
| | A | B | A | B | A | B |
| A Boers | 4 | 1 | - | - | - | - |
| S Khoosal (Chairperson) | 4 | 4 | - | - | - | 2 |
| S Khuboni * (ARC Chairperson) | 4 | 4 | 4 | 4 | 4 | 4 |
| D Longueira * | 4 | 4 | 4 | 4 | 4 | 4 |
| C Maslo | 4 | 4 | - | - | - | - |
| E Michen | 3 | 3 | - | - | - | - |
| A Pienaar * (Independent member in ARC) (Resigned 4 April 2022) | - | - | - | - | 1 | 0 |
| S Pretorius | 4 | 3 | - | - | - | - |
| C Franks* (Independent member in ARC) | - | - | - | - | 4 | 4 |
| A Roditis *(Board Audit Committee Chairperson) | - | - | - | - | 4 | 4 |
| P Seetul | 4 | 4 | - | - | - | - |
| Z Mani (Resigned 28 February 2022) | 1 | 1 | - | - | - | - |
| C Taylor | 4 | 4 | 4 | 4 | 4 | 4 |
| L Phelane* (Appointed 14 November 2022) | - | - | - | - | 1 | 1 |
| S Machaba (Appointed 28 July 2022) | 2 | 2 | - | - | - | - |
| S Vilakazi | 4 | 1 | 4 | 2 | - | - |
| E van Rooyen | 4 | 3 | - | - | - | - |
| M Botha | 4 | 4 | - | - | - | - |
| N Ndzwayiba | 4 | 2 | - | - | - | - |

A - total possible number of meetings that could have been attended

B - actual number of meetings attended

* - indicates Audit Committee member

OUTSTANDING RISK CLAIMS PROVISION

The basis of calculation of the outstanding claims provision is discussed in Note 8 to the annual financial statements and this is consistent with the prior year. Movements in the outstanding claims provision are set out in Note 8 to the annual financial statements. Although there has been an increase in the outstanding claims provision, the remaining provision as at 31 March 2023 is in line with prior years and the Trustees are comfortable that the provision is adequate.

INSURANCE RISK MANAGEMENT

A summary of the objectives, policies and procedures for managing insurance risk and the methods used to manage those risks is discussed in Note 20 to the annual financial statements.

NETCARE MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)

for the year ended 31 December 2022

PERSONAL MEDICAL SAVINGS ACCOUNT

In order to provide a facility for Scheme members to set funds aside to meet future healthcare costs, not covered by the benefit schedule, the Trustees have made the Savings Option available to meet this objective.

All members contribute 15% of their gross contributions into a savings account so as to help pay the members' portion of healthcare costs, up to a prescribed threshold.

Unexpended savings amounts are accumulated for the long-term benefit of the member. Interest has been accrued on savings account balances as required in terms of Circular 38 of 2011. No interest is accrued on savings contribution advances. The Scheme carries the risk of savings contribution advances.

Savings account balances are refundable when the member leaves the Scheme. The balance due to the member will be transferred to the member, or another medical scheme which provides for a similar account, after five months of the date of change.

The liability to the members in respect of the savings plan is reflected as a financial liability in the annual financial statements, repayable in terms of Regulation 10 of the Act.

BOARD AUDIT COMMITTEE

The Board Audit Committee (the "Audit Committee") was constituted in accordance with the provisions of the Act. The Audit Committee is mandated by the Trustees by means of written terms of reference as to its membership, authority and duties. The Audit Committee (listed below) consists of five members of which two are members of the Board of Trustees:

| | |
|--------------------|--|
| Chairperson | A Roditis |
| Employer Trustee | S Khuboni |
| Employer Trustee | D Longuiera |
| Independent Member | A Pienaar (Resigned 4 April 2022) |
| Independent Member | Cole Frank |
| Independent Member | L Phelane (Appointed 14 November 2022) |

The members, including the Chairperson, are not officers of the Scheme or its third party Administrator. However, with the exception of the Chairperson, all members are employees of Netcare Ltd.

In accordance with the provisions of the Act, the primary responsibility of the Audit Committee is to assist the Trustees in carrying out its duties relating to the Scheme's accounting policies, financial reporting practices, internal control systems and risk and governance processes. The external auditors formally report to the Audit Committee on critical findings arising from audit activities.

The Audit Committee has reported that:

- It has carried out its duties in terms of the Act and the Trustees' written Audit Committee charter;
- The external auditors have confirmed their independence and the Audit Committee has reviewed their audit plan and performance;
- The assurance provided by the administrator and the executive committee has satisfied the Audit Committee that associated Scheme risks have been considered and addressed;
- The assurances provided by the administrator, the external auditors and the internal auditors have satisfied the Audit Committee that internal controls are adequate and effective; and
- It has reviewed the Scheme's annual financial statements, reviewed the accounting policies, obtained assurance from the external auditors and has recommended the adoption of the annual financial statements by the Trustees for presentation to the members.

The Audit Committee met on 4 occasions during the course of the year, as follows:

- 02 February 2022
- 13 April 2022
- 15 August 2022
- 15 November 2022

NETCARE MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)

for the year ended 31 December 2022

NON-COMPLIANCE MATTERS

The Trustees are of the opinion that there are no material deviations from the Act.

1. Outstanding contributions

Nature and impact

In terms of Section 26(7) of the Act, contributions should be received in accordance with the rules of the Scheme. Per the Scheme rules, contributions are required to be received within three days after their due date. Instances were noted where contributions were received late.

Causes for failure

Balances after 3 days are due to defaults by direct paying members. Direct paying members are limited to pensioners or disability members no longer employed by Netcare Ltd or its subsidiaries. The risk of default on payments due to the Scheme is small because of the restricted nature of the Scheme and employer base.

Corrective action

Suspension policies are in place and applied where contributions are outstanding beyond the Scheme's available credit terms.

2. Payment of claims within 30 days

Nature and impact

In terms of Section 59(2) of the Act a member or provider claim should be settled within 30 days of submission. Instances were noted where settlements took more than 30 days.

Causes for failure

Delays can occur when accounts are referred for clinical audit or other investigations. These are however the exceptions, and claims are generally paid within the prescribed time.

Corrective action

The Scheme is aware of the requirements and complies as far as possible. Refer to note 18 of the annual financial statements for further disclosure.

NETCARE MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)

for the year ended 31 December 2022

NON-COMPLIANCE MATTERS (continued)

3. Investment in administrators

Nature and impact

In terms of Section 35(8)(c) of the Act a medical scheme shall not invest any of its assets in any administrator. During the year under review the Scheme had indirect investments in Administrators of Medical Schemes.

Causes for failure

The Scheme invests in pooled investment vehicles that allow investment managers 100% discretion to invest in a combination of shares and bonds that best achieve the stipulated benchmark.

Corrective action

The Scheme made an application to the Council for Medical Schemes for an exemption from this section of the Act. An exemption has been granted by the Council for Medical Schemes until 30 November 2025.

4. Composition of the Board of Trustees

Nature and impact

In terms of Section 57(2) of the Act and in Rule 18(1) of the Scheme's registered Rules at least 50% of the members of the board of trustees shall be elected from amongst members.

Causes for failure

The Scheme embarked upon a member elections process during 2022 for the nomination and appointment of replacement member trustees. However, it was identified that due to an inadvertent oversight, a valid nominee's name had been omitted from the Scheme's list of nominees.

Corrective action

The Scheme became aware of this omission two days prior to the scheduled 2022 Annual General Meeting. The Scheme was of the view that the aforesaid oversight rendered the voting process invalid. As there was insufficient time before the Annual General Meeting to re-run the member elections, the Scheme immediately reported the matter to the Council for Medical Schemes (CMS) seeking guidance on remedial action. The Scheme took action to re-run the election and ensure that the oversight was addressed.

In accordance with senior counsel's advice, the Scheme made an application to the CMS for an exemption from this section of the Act for the express purpose of addressing this matter. The CMS declined the application on the basis that the current Board of Trustees was not properly constituted, and that in any event, a non-compliance exemption may only be granted where the non-compliance had not yet occurred.

Based on the legal advice it received, the Scheme is in respectful disagreement with the decision of the CMS. The Scheme has therefore lodged an Appeal with the Appeal Board constituted by the Act and has also made an application to the High Court for appropriate relief, both of which are pending.

NETCARE MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)

for the year ended 31 December 2022

NON-COMPLIANCE MATTERS (continued)

5. Composition of the Board Audit Committee

Nature and impact

In terms of Section 36(10) of the Act, the Board of Trustees shall appoint an audit committee of at least five members of which at least three shall be independent of the Board of Trustees. At the meeting of 15th August 2022 there were only 2 independent members.

Causes for failure

A vacancy arose on the audit committee for an independent member. In line with the Scheme's Board Audit Committee Terms of Reference, this had to be filled within three months. The delay in finalizing the appointment of a new Board Audit Committee member was due to the ongoing section 57(2) Board non-compliance noted above.

Corrective action

The process to fill the vacancy commenced upon confirmation from the Council for Medical Schemes to continue with the business of the Scheme as usual and L Phelane was appointed to the Board Audit Committee on 14 November 2022.

COVID-19

Provision for COVID vaccinations

COVID-19 vaccination data, recently received from the Department of Health from the EVDS system, showed that a significant number of members had been vaccinated for COVID-19 at public vaccination sites but that a significant portion of cost at these sites have not yet been billed to the Scheme. Therefore, an additional IBNR allowance should be made in for these COVID-19 vaccine costs. The IBNR amount was determined based on the number of doses received by members to date that have not yet been billed multiplied by the assumed cost for each dose (including both the vaccine and administration components).

GENERAL

No incidents of litigation or other negative matters occurred.

The Trustees were briefed on all relevant aspects of the terms of reference of corporate governance during the course of the year.

The Chairperson of the Board of Trustees would like to thank the Trustees and the members of the Audit Committee for their positive and meaningful contributions during the year.

NETCARE MEDICAL SCHEME

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

for the year ended 31 December 2022

The Trustees are responsible for the preparation, integrity and fair presentation of the annual financial statements of the Netcare Medical Scheme ("the Scheme"). The annual financial statements presented on pages 15 to 49 have been prepared in accordance with International Financial Reporting Standards 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 they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

The Trustees are satisfied that the information contained in the annual financial statements fairly present the results of operations and cash flows for the year and the financial position of the Scheme at year-end. The Trustees also prepared the other information included in the Trustees report and are responsible for both its accuracy and its consistency with the annual financial statements.

The Trustees are responsible for ensuring that proper 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 well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing the Scheme are being controlled. No material breakdown in controls have been identified during the year under review.

On the basis of this review, and in light of the current financial position and available resources, the Trustees have no reason to believe that the Scheme will not be a going concern for the foreseeable future.

The Scheme's external auditor, Deloitte & Touche, are responsible for auditing the annual financial statements in terms of International Standards on Auditing and their audit report is presented on page 12 - 14.

The annual financial statements were approved by the Board of Trustees on 18 May 2023 and are signed on its behalf by:



S Khoosal
Chairperson



C Taylor
Principal Officer



S Pretorius
Trustee

18 May 2023

NETCARE MEDICAL SCHEME

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

for the year ended 31 December 2022

The Scheme derives its corporate governance framework from its rules, the Medical Schemes Act 131 of 1998, as amended (the "Act") and guidance provided by the Council for Medical Schemes by means of reports and circulars. In addition to this, the Trustees are considering the principles of the King Code as it relates to medical schemes.

As Trustees of the Scheme we acknowledge that our appointment is by the members of the Scheme and that we owe them a duty to exercise fiduciary responsibilities over the financial affairs of the Scheme whilst ensuring compliance with the framework of the law and rules of the Scheme.

The Trustees delegate several of its duties to service providers such as managed care organisations and administrators. These relationships are managed by means of written contracts and service level agreements. Regular meetings are held to ensure services are rendered within the framework of the contracts and agreements.

The Trustees make use of various sub-committees to assist in the execution of its duties. These sub-committees remain responsible to the main Board of Trustees of the Scheme and their activities are governed by a terms of reference framework as agreed by the Board of Trustees. Currently the following committees are in place:

- Investment Committee;
- Board Audit Committee;
- Benefit Design Committee;
- Clinical Governance Committee
- Disputes Committee;
- Exgratia Committee; and
- Governance & Risk Committee.

A code of conduct is in place to which all Trustees subscribe. It deals with conflicts of interest, duties of the Trustees and any other matters relating to unethical or perceived unethical behaviour. The Trustees are reminded of the code of conduct and their duty to members of the Scheme. This is acknowledged and agreed at Board meetings.

The Trustees are not remunerated for their services. Expenses relating to travel and training are paid by the Scheme. New Trustees appointed are duly orientated and inducted to ensure they fulfil their obligation to the membership of the Scheme.

The Trustees recognise the need for each and every staff member in the Netcare group to have access to medical aid cover and each year during benefit design the Trustees pay significant attention to ensure premiums remain affordable to all staff whilst providing benefits in line with prescribed minimum benefits.

Communication with members of the Scheme is seen as an essential component of transparent governance. Regular feedback in the form of electronic communication is submitted to members with monthly statements to communicate changes in the regulatory environment or benefit structure of the Scheme.

The number of Board members is equally split in terms of employer and member elected Trustees whose duties are explicitly stated in the rules of the Scheme. Board of Trustees meetings are arranged four times a year and where issues require urgent attention, interim meetings and discussions take place with the full Board of Trustees being appraised of decisions. Board minutes and information packs deal with all the necessary financial and clinical information relating to the Scheme. Full disclosure and transparency is fostered. The Chairperson of the Scheme was unanimously appointed by the Board of Trustees.

NETCARE MEDICAL SCHEME

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES (continued) for the year ended 31 December 2022

The Board of Trustees view good governance not only as complying with legislative provisions and applying the relevant principles of the King Code on corporate governance, but view it as integral to the success, sustainability and financial soundness of the Netcare Medical Scheme. The Trustees are satisfied that the Scheme has in all material respects complied with the provisions and spirit of its rules, the Medical Schemes Act 131 of 1998, as amended and its regulations, other than those matters noted in the Board of Trustees report.



S Khoosal
Chairperson



C Taylor
Principal Officer



S Pretorius
Trustee

18 May 2023

Independent Auditor's Report

To the Members of Netcare Medical Scheme

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Netcare Medical Scheme (the Scheme), set out on pages 15 to 49, which comprise the statement of financial position as at 31 December 2022, 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 notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current 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.

| Key Audit Matter | How the matter was addressed in the audit |
|--|--|
| Outstanding claim provision (IBNR) | |
| IFRS requires the Scheme to make provision for all future cash outflows for which the past event has occurred. In doing so the Scheme calculates a best estimate of claims payments for claim events occurring prior to year-end but for which the scheme has not been notified. | <ul style="list-style-type: none"> We assessed the competence, capabilities and objectivity of the Trustee's specialist performing the calculation of the provision; Performed a retrospective review of the IBNR raised in the 2021 financial year based on actual claims paid in 2022 to verify reasonability of the assumptions applied |



National Executive: *R Redfearn Chief Executive Officer *GM Berry Chief Operating Officer JW Eshun Managing Director Businesses LN Mahluza Chief People Officer *N Sing Chief Risk Officer AP Theophanides Chief Sustainability Officer *NA le Riche Chief Growth Officer *ML Tshabalala Audit & Assurance AM Babu Consulting TA Odukoya Financial Advisory G Rammego Risk Advisory DI Kubeka Tax & Legal 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>As disclosed on the face of the statement of financial position and in Note 8, the outstanding claim provision of R33.6 million (2021: R30.4 million).</p> <ul style="list-style-type: none"> This matter is considered significant as the underlying calculation requires a use of significant assumptions, estimates and judgement by management. | <p>to the IBNR and assess the ability of the Scheme to estimate the IBNR with some reliability;</p> <ul style="list-style-type: none"> Performed a substantive analytical review procedure, using historical claims data to develop an expected IBNR amount, comparing that to the amount determined by the Trustee’s specialist to ensure adequacy of the provision; Performed tests of detail on the current year IBNR including testing actual claims experienced subsequent to year end and to as close as possible to audit completion date; and Assessed the presentation and disclosure in respect of the IBNR and considered whether the disclosures reflected the risks inherent in the accounting for the IBNR. |

Other Information

The Scheme’s trustees are responsible for the other information. The other information comprises the Statement of responsibility by the Board of Trustees, the Statement of corporate governance by the Board of Trustees and the Report of the Board of Trustees as required by Medical Schemes Act of South Africa which we obtained prior to the date of this 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 on the other information obtained prior to the date of this auditor’s report, 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 Scheme's 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 (CMS), we report that there are no material instances of non-compliance with the requirements of the Medical Schemes Act of South Africa, that have come to our attention during the course of our audit.

Audit tenure

In terms of CMS Circular 38 of 2018 Audit tenure, we report that Deloitte has been the auditor of Netcare Medical Scheme for 10 years.

The engagement partner, Kelby Moothoosamy, has been responsible for the Netcare Medical Scheme audit for 2 years.

DocuSigned by:

EF3312C19A464FF...

Deloitte & Touche

Registered Auditor

Per: Kelby Moothoosamy

Partner

31 May 2023

NETCARE MEDICAL SCHEME

STATEMENT OF FINANCIAL POSITION

at 31 December 2022

| | Notes | 2022 R | 31 December 2021 R Restated* | 1 January 2021 R Restated* |
|---|-------|--------------------|------------------------------------|----------------------------------|
| ASSETS | | | | |
| Current assets | | 794,991,145 | 740,808,575 | 673,553,228 |
| Trade and other receivables | 3 | 6,369,715 | 4,669,270 | 3,815,184 |
| Investments held at fair value through profit or loss | 4 | 545,301,354 | 528,246,065 | 476,995,228 |
| Scheme investments | | 393,269,583 | 372,721,404 | 321,826,345 |
| Medical savings trust investments | | 152,031,771 | 155,524,662 | 155,168,883 |
| Cash and cash equivalents | 5 | 243,320,076 | 207,893,240 | 192,742,816 |
| | | <u>794,991,145</u> | <u>740,808,575</u> | <u>673,553,228</u> |
| FUNDS AND LIABILITIES | | | | |
| Members' funds | | 590,666,900 | 542,141,610 | 474,400,627 |
| Current liabilities | | 204,324,245 | 198,666,965 | 199,152,601 |
| Personal medical savings accounts | 6 | 152,261,648 | 151,501,278 | 154,260,926 |
| Trade and other payables | 7 | 18,392,468 | 16,765,687 | 15,691,675 |
| Outstanding risk claims provision | 8 | 33,670,129 | 30,400,000 | 29,200,000 |
| | | <u>794,991,145</u> | <u>740,808,575</u> | <u>673,553,228</u> |

Refer to note 2

NETCARE MEDICAL SCHEME

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2022

| | Notes | 2022 R | Restated* 2021 R |
|--|-------|-------------------|------------------------|
| Risk contribution income | 9 | 913,470,478 | 892,371,538 |
| Relevant healthcare expenditure | | (855,446,937) | (843,028,812) |
| Risk claims incurred | 10 | (854,738,180) | (841,225,524) |
| Claims incurred | | (856,564,042) | (845,804,775) |
| Claim recoveries | | 1,825,862 | 4,579,251 |
| Net expense on risk transfer arrangements | 11 | (708,757) | (1,803,288) |
| Risk transfer arrangement premiums paid | | (6,225,144) | (6,110,743) |
| Risk transfer arrangement recoveries | | 5,516,387 | 4,307,455 |
| Gross healthcare result | | 58,023,541 | 49,342,726 |
| Administration fees | 13 | (35,870,125) | (34,902,512) |
| Other administration expenses | 14 | (3,569,044) | (3,021,603) |
| Net impairment on healthcare receivables | 15 | (497,676) | (906,792) |
| Net healthcare surplus | | 18,086,696 | 10,511,819 |
| Other income | | 41,445,445 | 66,210,704 |
| Investment income | 16 | 27,241,389 | 19,262,759 |
| Scheme* | | 18,333,456 | 12,228,616 |
| Return on members' personal medical savings account trust monies | | 8,907,933 | 7,034,143 |
| Realised and unrealised gains / (losses) on financial instruments* | 17 | 14,174,127 | 46,938,706 |
| Other income - prescribed credit balances | | 29,929 | 9,238 |
| Other expenditure | | (11,006,851) | (8,981,540) |
| Investment management fees | | (2,098,918) | (1,947,397) |
| Interest paid on members' savings account balances | 6 | (8,907,933) | (7,034,143) |
| Total comprehensive income for the year | | 48,525,290 | 67,740,983 |
| Solvency ratio | | 49.1% | 46.6% |

*Refer to note 2

NETCARE MEDICAL SCHEME

STATEMENT OF CHANGES IN FUNDS AND RESERVES

for the year ended 31 December 2022

| | Accumulated funds R |
|---|------------------------------------|
| Balance as at 1 January 2021 | 474,400,627 |
| Total comprehensive income for the year | 67,740,983 |
| Balance as at 31 December 2021 | <u>542,141,610</u> |
| Total comprehensive income for the year | 48,525,290 |
| Balance as at 31 December 2022 | <u><u>590,666,900</u></u> |

NETCARE MEDICAL SCHEME

STATEMENT OF CASH FLOWS

for the year ended 31 December 2022

| | Notes | 2022 R | *Restated 2021 R |
|---|-------|--------------------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash receipts from members and providers | | 1,084,211,813 | 1,060,836,542 |
| - Cash receipts from members - contributions | | 1,073,624,416 | 1,049,443,617 |
| - Cash receipts from members and providers - other | | 10,587,397 | 11,392,925 |
| Cash paid to providers, employees and members | | (1,062,144,824) | (1,051,663,832) |
| - Cash paid to members and providers - claims | | (1,005,332,379) | (996,424,986) |
| - Cash paid to providers - non-healthcare expenditure | | (38,854,057) | (37,816,140) |
| - Cash paid to members - savings plan refunds | | (17,958,388) | (17,422,706) |
| CASH GENERATED FROM OPERATIONS | | 22,066,989 | 9,172,710 |
| Interest paid | 6 | (8,907,933) | (7,034,143) |
| Sundry income | | 29,929 | 9,238 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | 13,188,985 | 2,147,805 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of investments | 4 | (199,200) | (1,199,120) |
| Proceeds from sale of investments | 4 | 12,600,023 | 7,877,484 |
| Interest received | 16 | 9,837,028 | 6,324,254 |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | 22,237,852 | 13,002,618 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 35,426,836 | 15,150,423 |
| Cash and cash equivalents at beginning of the year | | 207,893,240 | 192,742,816 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 5 | 243,320,076 | 207,893,240 |

*Refer to accounting policy note 2

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

1. PRINCIPAL ACCOUNTING POLICIES

These annual financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) and the disclosure as required by the Medical Schemes Act 131 of 1998, as amended. The following are the principal accounting policies used by the Scheme, which are consistent with those of the previous year.

1.1 Basis of preparation

The annual financial statements are prepared on the historical cost convention, except for certain financial assets where the company adopts the fair value basis of accounting.

1.2 Implementation of new standards

Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current

The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date.

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.3 New standards, amendments and interpretations not yet effective in 2022 and relevant to the Scheme:

At the date of authorisation of the annual financial statements, the following new accounting standards and interpretations are in issue, but not yet effective. None of these standards have been early adopted by the Scheme. These are not all the standards issued but those which may be relevant to the Scheme. The Trustees are in the process of evaluating the effects of these new standards and interpretations but they are not expected to have a significant impact on the Scheme's results and disclosures.

| Standard | Subject | Effective date * |
|--|--|-----------------------|
| <p>IFRS 17: Insurance contracts</p> | <p>The Standard was issued in May 2017 and supersedes IFRS 4 'Insurance Contracts'. The Standard creates one accounting model for all insurance contracts and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The Standard requires insurance contracts to be measured using updated estimates and assumptions that reflect the timing of cash flows and takes into account any uncertainty relating to insurance contracts.</p> <p>Insurance contracts - The primary objective of the standard is to identify insurance contracts within the Scheme. The contracts issued by the Scheme are insurance contracts, indemnifying members and their dependants against the risk of loss arising as a result of a health event. Certain of these contracts contain a Personal Medical Savings Account which were previously accounted for as financial instruments. Under IFRS 17 these will be accounted for as part of the insurance contracts.</p> <p>Level of aggregation - Insurance contracts are aggregated into groups, or portfolios, of individual contracts when being measured and assessed as onerous or not. The level of aggregation has an impact on accounting for the insurance contracts, including the extent of offsetting and cross subsidisation to determine the appropriate level of aggregation in order to ultimately identify onerous contracts. A portfolio of insurance contracts comprises contracts subject to similar risks that are managed together. Once the portfolio of insurance contracts has been established, it becomes the unit of account to which the requirements of IFRS 17 are applied. All member contracts issued by the Scheme are subject to similar risks and are managed together, and therefore fall into the same portfolio, with no further disaggregation required.</p> <p>Contract boundary - The contracts issued by the Scheme are in line with its financial year and therefore no contracts will be issued for a financial year after the end of that specific financial year. In addition, as no contract will exceed 12 months, no discounting will be applied. Insurance contracts issued shall be recognized from the earliest of the following: (a) The beginning of the coverage period; (b) The date when the first payment from a policyholder becomes due; and (c) For onerous contracts, when the contracts become onerous. With the insurance contracts being included in a single portfolio, and the coverage period aligning with the reporting period (financial year), the insurance contracts will be recognised from 1 January or from inception of cover should the member join the Scheme after 1 January. An exception to this would be where the Scheme as a whole is priced for a deficit position. This would mean that all contracts would be onerous and the loss would need to be recognised when the contracts become onerous. As pricing for the Scheme is done in September for the following year, the onerous contract test would be assessed at this time, with the following year's loss being recognised in the current financial year.</p> | <p>1 January 2023</p> |

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.3 New standards, amendments and interpretations not yet effective in 2022 and relevant to the Scheme (continued):

| Standard | Subject | Effective date * |
|--|--|-----------------------|
| <p>IFRS 17: Insurance contracts (continued)</p> | <p>Measurement - The Standard further provides for a simplified approach, the “premium allocation approach”, for the measurement of a group of insurance contracts under certain conditions. One of those conditions is that at the inception of the group of contracts, the entity reasonably expects that the simplification will produce measurement of the liability for remaining coverage that would not differ materially from that produced using the ‘general measurement’ model. Another condition is that the coverage period is one year or less. The Scheme has opted for the simplified “premium allocation approach”.</p> <p>Risk adjustment - The Standard requires an adjustment for non-financial risk. The Scheme shall adjust the estimate of the present value of the future cash flows in order to provide for the possible financial implications of the Scheme bearing the uncertainty of the amount and timing of cash flows that may arise from non-financial risk. The objective of the risk adjustment provision for non-financial risk is to reflect the Scheme’s perception of the possible economic burden which may be the result of non-financial risks. IFRS 17 requires that the Standard is implemented retrospectively. This requires the identification, recognition and measurement of each group of insurance contracts as if the standard had always been applied. This also results in the derecognition of current balances that would not exist under IFRS 17, and the recognition of the resulting difference in Members' funds.</p> <p>Financial impact - Onerous contracts - With the requirement to implement the Standard retrospectively, the opening balances of 2021 and 2022 will be impacted by the budgeted deficits (onerous contracts) for the respective years. The 2021 budgeted deficit unwinds in 2021 with the 2022 budgeted deficit unwinding in 2022. The original budgets, with IFRS 17 adjustments, will be the starting point in calculating the onerous contract loss.</p> <p>Financial impact - Risk margin on onerous contracts - In addition to the “best estimate” onerous contract provision above, a risk margin amount reflecting potential adverse claims experience is required. It is required that a confidence interval approach is used. A confidence interval is a range of values into which one would expect an outcome to fall with a given chance. Historic variations from budget as a percentage of claims are used to calculate a ‘standard error’ deviation from budget, which is then used along with the Value at Risk (VaR) formula for claims variability in the Risk Based Solvency Assessment. The Value at Risk reflects a maximum financial loss which could be expected with a given probability i.e. a 90% VaR figure would be one that the scheme only has a 1 in 10 chance of performing worse than. This margin is expected to have a material impact on the onerous contract value. Management are confident that the Scheme will be fully prepared to apply IFRS 17 to the Annual Financial Statements for the financial year ending 31 December 2023, including the required comparative figures arising from the 2022 financial year end.</p> | <p>1 January 2023</p> |

* Annual periods commencing on or after

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.4 Classification, recognition, presentation and derecognition of financial instruments

The Scheme recognises a financial instrument when, and only when, it becomes a party to the contractual provisions of the instrument. The Scheme classifies its financial instruments into the following categories: financial assets or financial liabilities at fair value through profit or loss, and loans and receivables. Loans and receivables are receivables other than those arising from insurance contracts and include sundry accounts receivable and interest receivable. Loans and receivables are disclosed under Trade and other receivables.

The classification depends on the purpose for which the financial instruments are acquired. Management determines the classification of financial instruments at initial recognition. All purchases and sales of financial instruments are recognised on the trade date, which is the date on which the Scheme commits to purchase the financial asset or assume financial liability.

Investments held at fair value through profit or loss

The Scheme recognises a financial asset at fair value through profit or loss when any of the following conditions are met:

- The asset is acquired principally for the purpose of selling in the near term;
- The portfolio of assets are traded for short-term profit;
- A derivative that is not designated as an effective hedge.
- Upon initial recognition the Scheme designated the asset as fair value through profit or loss.

A group of financial assets is designated as at fair value through profit or loss if it is managed and its performance is evaluated on a fair value basis, in accordance with the Scheme's documented risk management strategy, and information about the group of assets is provided internally on that basis to the Scheme's key management personnel.

Financial assets at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the profit or loss section of the Statement of Comprehensive Income.

The fair value of the financial instruments traded in an active market is determined by using quoted market prices or dealer quotes. The fair value of financial instruments not traded in an active market is determined by using valuation techniques that maximise the use of observable market data and rely as little as possible on entity specific estimates.

Gains or losses arising from subsequent changes in fair value are recognised under Other Income in the Statement of Comprehensive Income within the period in which they arise.

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.4 Classification, recognition, presentation and derecognition of financial instruments (continued)

Loans and receivables

The Scheme's receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position. Receivables are subsequently carried at amortised cost using the effective interest method.

The Scheme assesses at the end of each reporting period whether there is objective evidence that a receivable category or group of receivable categories is impaired. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. Subsequent reversals of previously recognised impairment loss is recognised in the statement of comprehensive income when the debtor's credit rating improve.

Cash and cash equivalents

Cash and cash equivalents include units in money market unit trust investments and other short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value.

Financial liabilities

Financial liabilities are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Offset

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously or to settle on a net basis, all related financial effects are offset.

1.5 Provisions and liability adequacy test

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.

The outstanding risk claims provision represents the Trustees' estimate of the ultimate cost of settling all healthcare benefits costs that have occurred before the statement of financial position date, but have not been reported to the Scheme by that date. Consideration is given to the liability adequacy test.

1.6 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 other beneficiary are classified as insurance contracts.

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

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.7 Contribution income

Contributions on member insurance contracts are accounted for monthly when their collection in terms of the insurance contract is reasonably certain. Risk contributions represent the gross contributions per the registered rules after the unbundling of savings contributions. The earned portion of the risk contributions received is recognised as revenue. Risk contributions are earned from the date of attachment of risk, over the indemnity period on a straight-line basis.

1.8 Managed care: management services

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

1.9 Relevant healthcare expenditure

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

1.10 Risk claims

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 discounts, recoveries from members for co-payments, and savings plan accounts;
- 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 accounts;
- movement in the provision for outstanding risk claims; and
- claims settled in terms of risk transfer arrangements.

Claims incurred relating to risk transfer arrangements are calculated on the basis of actual utilisation applied to the rate as provided by the capitated provider.

1.11 Outstanding risk claims

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

Estimated co-payments and payments from personal medical savings accounts are deducted in calculating the outstanding risk claims provision. The Scheme does not discount its provision for outstanding risk claims, since the effect of the time value of money is not considered material.

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.12 Personal medical savings accounts: trust monies managed by the Scheme on behalf of its members

The personal medical savings account, which is managed by the Scheme on behalf of its members, represents savings contributions (which are a deposit component of the insurance contracts), and accrued interest thereon, net of any savings claims paid on behalf of members in terms of the Scheme's registered rules as well as other movements i.e. transfers or repayments on death or resignation.

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.

The savings account liability is measured at cost because it has a demand feature which has no insurance risk. Savings account contributions are credited on the accrual basis and withdrawals are debited on a cash basis, i.e. no provision is made for outstanding claims at the year-end. Interest is paid on positive balances at a rate applicable to what the Scheme earns on ring-fenced cash investments.

The personal medical savings accounts are invested on behalf of members in current and money market accounts with banks. These monies are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

1.13 Risk transfer arrangements

Risk transfer premiums are recognised as an expense over the indemnity period on a straight-line basis. Risk transfer claims and benefits reimbursed are presented in the statement of comprehensive income and the statement of financial position on a gross basis. Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance. Amounts recoverable under such contracts are recognised in the same year as the related claim.

Amounts recoverable under risk transfer arrangements are assessed for impairment at each statement of financial position 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.

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.14 Impairment gains and losses

The carrying amounts of the Scheme's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss in the period in which the adjustment is made to the estimate of the carrying amount.

Calculation of recoverable amount

The recoverable amount of the Scheme's trade and other receivables balances carried at amortised cost are calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

Reversals of impairment

An impairment loss in respect of trade and other receivables carried at amortised cost is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

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 assets carrying amount does not exceed the carrying amount that would have been determined, net of amortisation if no impairment loss had been recognised.

1.15 Investment income

Investment income comprises of interest received and accrued on all bank accounts, dividends and net realised and unrealised gains or losses on investments held at fair value through profit or loss.

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

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

1.16 Road Accident Fund Recoveries

Recoveries from the Road Accident Fund are recognised on a receipt basis and are netted off against claims expenditure. A debtor is not recognised as it would be fully impaired (refer note 23).

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

2 RESTATEMENT OF COMPARATIVE FIGURES

The Scheme's investment portfolio includes investments in the Ninety One Stable Money Market Fund. In the current year, the Scheme has revisited the classification of these instruments held through collective investment schemes in line with the requirements of International Accounting Standard 7: Statement of Cash Flows ("IAS 7"). In terms of IAS 7, an investment meets the definition of cash and cash equivalents if a) The investment held for the purpose of meeting short-term cash commitments rather than for investment purposes; b) is readily convertible into known amounts of cash and; c) is subject to insignificant risk of change in value.

Although these investment portfolios meet the requirements outlined in b) and c) noted above, they do not meet the requirements of a). These investments are not held for meeting short-term cash commitments but rather for long-term investment purposes. In the prior years it was assumed that all three requirements were met. These investments have therefore been re-presented as investments at fair value through profit or loss. Interest and dividends on these investments have been reclassified to unrealised gains. This re-presentation has also resulted in an additional adjustment to the Statement of Cashflows as outlined below. The impact on prior years has been adjusted accordingly.

NOTE 16 - INVESTMENT INCOME

| | Year ended 31 December 2021 | | |
|-----------------------------------|-----------------------------|-----------------------|-------------|
| | As previously reported | Effect of restatement | As restated |
| Interest income - scheme interest | 15,464,635 | (7,178,008) | 8,286,627 |
| Dividend income | 5,849,407 | (1,907,418) | 3,941,989 |

NOTE 17 - REALISED AND UNREALISED GAINS ON FINANCIAL INSTRUMENTS

| | Year ended 31 December 2021 | | |
|---------------------------------|-----------------------------|-----------------------|-------------|
| | As previously reported | Effect of restatement | As restated |
| Unrealised gains on revaluation | 34,919,967 | 9,085,425 | 44,005,392 |

NOTE 22 - FINANCIAL RISK MANAGEMENT

| | Year ended 31 December 2021 | | |
|---|-----------------------------|-----------------------|---------------|
| | As previously reported | Effect of restatement | As restated |
| The calculation of the regulatory capital requirement is set out below. | | | |
| Total members' funds per statement of financial position | 542,141,610 | - | 542,141,610 |
| Less: Cumulative fair value adjustment on financial assets at fair value through profit or loss | (44,433,513) | (9,085,425) | (53,518,938) |
| Accumulated funds per Regulation 29 | 497,708,097 | (9,085,425) | 488,622,672 |
| Annualised gross contributions | 1,048,961,860 | 1,048,961,860 | 1,048,961,860 |
| Solvency ratio | 47.4% | -0.9% | 46.6% |

NETCARE MEDICAL SCHEME**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2022

2 RESTATEMENT OF COMPARATIVE FIGURES (continued)**STATEMENT OF FINANCIAL POSITION****As at 1 January 2021**

| | As previously reported | Effect of restatement | As restated |
|---|-------------------------------|------------------------------|--------------------|
| Investments held at fair value through profit or loss | 294,426,532 | 182,568,696 | 476,995,228 |
| Cash and cash equivalents | 375,311,512 | (182,568,696) | 192,742,816 |

STATEMENT OF FINANCIAL POSITION**As at 31 December 2021**

| | As previously reported | Effect of restatement | As restated |
|---|-------------------------------|------------------------------|--------------------|
| Investments held at fair value through profit or loss | 344,052,659 | 184,193,406 | 528,246,065 |
| Cash and cash equivalents | 392,086,646 | (184,193,406) | 207,893,240 |

STATEMENT OF CASH FLOWS**As at 31 December 2021**

| | As previously reported | Effect of restatement | As restated |
|--|-------------------------------|------------------------------|--------------------|
| Cash paid to providers - non - healthcare expenses | (39,763,537) | 1,947,397 | (37,816,140) |
| Purchase of investments | (13,593,788) | 12,394,668 | (1,199,120) |
| Proceeds from sale of investments | 1,820,942 | 6,056,542 | 7,877,484 |
| Interest received | 22,498,165 | (16,173,911) | 6,324,254 |
| Dividends received | 5,849,407 | (5,849,407) | - |

Comparative changes have been made to support the necessary amendments to reflect the restatement in Notes 4, 5, 16, 17, 21 and 22.

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

| | 2022 | 2021 |
|--|------------------|------------------|
| | R | R |
| 3 TRADE AND OTHER RECEIVABLES | | |
| Insurance receivables | | |
| Contributions outstanding from members | 1,137,975 | 905,317 |
| Recoveries due from members | 2,700,244 | 1,417,905 |
| Amounts due from providers | 3,126,744 | 3,263,285 |
| Forensic receivables | 3,428,318 | 3,172,524 |
| | <hr/> | <hr/> |
| | 10,393,281 | 8,759,031 |
| Less: Provision for impairment losses | (4,067,749) | (4,137,205) |
| | <hr/> | <hr/> |
| Non insurance receivables | 6,325,532 | 4,621,826 |
| Sundry debtors | - | 26,720 |
| Accrued interest | 44,183 | 20,724 |
| | <hr/> | <hr/> |
| | <u>6,369,715</u> | <u>4,669,270</u> |

The movement in the allowance for impairment during the year was as follows:

| | Member and provider debt | Total |
|---|---|------------------|
| | R | R |
| 2022 | | |
| Balance as at 1 January | 4,137,205 | 4,137,205 |
| Amount recognised in the statement of comprehensive income | (69,457) | (69,457) |
| Additional provisions made in the period | 497,676 | 497,676 |
| Unused amounts reversed during the period | (567,133) | (567,133) |
| Amounts utilised during the period | - | - |
| Balance as at 31 December | <u>4,067,748</u> | <u>4,067,748</u> |
| 2021 | | |
| Balance as at 1 January | 3,770,098 | 3,770,098 |
| Amount recognised in the statement of comprehensive income | 367,107 | 367,107 |
| Additional provisions made in the period | 906,792 | 906,792 |
| Unused amounts reversed during the period | (539,685) | (539,685) |
| Amounts utilised during the period | - | - |
| Balance as at 31 December | <u>4,137,205</u> | <u>4,137,205</u> |

At year-end the carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets.

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

| | 2022 | Restated* |
|--|--------------------|--------------------|
| | R | 2021 |
| | | R |
| 4 INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS | | |
| Fair value at the beginning of the year | 528,246,065 | 476,995,228 |
| Additions | | |
| Contributions | 199,200 | 1,199,120 |
| Interest re-invested | 12,953,522 | 8,995,903 |
| Dividends re-invested | 4,427,381 | 3,941,989 |
| Disposals | | |
| Withdrawals | (12,600,023) | (7,877,484) |
| Investment management fees# | (2,098,918) | (1,947,397) |
| Realised gains on disposal of investments | 4,803,372 | 2,933,314 |
| Unrealised gains on fair valuation of investments | 9,370,755 | 44,005,393 |
| Fair value at the end of the year | <u>545,301,354</u> | <u>528,246,065</u> |

#Investment management fees are paid for by the respective portfolios through the disinvestment of investments.

*Refer to note 2

The investments included above represent investments on a look-through basis in:

| | | |
|-----------------------------------|--------------------|--------------------|
| Bonds | 178,417,111 | 123,862,130 |
| Cash and deposits | 238,905,465 | 260,304,147 |
| Equity | 127,978,777 | 144,079,788 |
| Fair value at the end of the year | <u>545,301,354</u> | <u>528,246,065</u> |

Investments held at fair value through profit or loss representing units in insurance policies and collective investment schemes are made up of the following:

| | | |
|--|--------------------|--------------------|
| Allan Gray Life - Domestic Stable Medical Scheme Portfolio | 144,731,899 | 136,066,215 |
| Coronation Life - Coronation Medical Aid Portfolio | 107,143,726 | 102,345,017 |
| M&G Life Inflation Plus 5% Medical Aid Fund UPF | 111,004,642 | 105,641,427 |
| Ninety One - Stable Money Market Fund | 30,389,316 | 28,668,744 |
| Ninety One - Stable Money Market Fund - PMSA Trust Funds | 152,031,771 | 155,524,662 |
| | <u>545,301,354</u> | <u>528,246,065</u> |

A register of investments held through the above insurance policies are available for inspection at the registered office of the Scheme.

The investment managers actively trade the underlying portfolios with reference to the market values of the underlying investments. Realised gains and losses arise when individual shares and bonds or equities are disposed within the underlying portfolios.

The weighted average effective return on the above investments was 5.5% (2021: 16.8%).

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

| | 2022 | Restated* |
|------------------------------------|--------------------|--------------------|
| | R | 2021 |
| | | R |
| 5 CASH AND CASH EQUIVALENTS | | |
| Money market instruments | 153,174,141 | 205,688,071 |
| Current accounts | 90,145,935 | 2,205,169 |
| | <u>243,320,076</u> | <u>207,893,240</u> |

The weighted average effective interest rate on money market accounts was 5.0% (2021: 3.8%). The overall weighted average effective interest rate on cash and cash equivalents was 5.9% (2021: 4.6%).

At year-end the carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets.

*Refer to note 2

6 PERSONAL MEDICAL SAVINGS ACCOUNTS

| | | |
|--|--------------------|--------------------|
| Balance on savings account liability at beginning of the year | 151,501,278 | 154,260,926 |
| Net balance on savings account liability at the beginning of the | <u>151,501,278</u> | <u>154,260,926</u> |
| Add: | | |
| Savings account contributions received or receivable | 161,266,616 | 157,309,733 |
| - for the current year (refer note 9) | 160,362,962 | 156,590,322 |
| - transfers from other schemes | 903,654 | 719,411 |
| Interest paid on savings account balances | 8,907,933 | 7,034,143 |
| Less: | | |
| - repayments on death and resignation | (17,958,390) | (17,422,706) |
| - claims paid on behalf of members (refer note 10) | (151,455,789) | (149,680,818) |
| Balance on savings account liability at end of the year | <u>152,261,648</u> | <u>151,501,278</u> |

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

6 PERSONAL MEDICAL SAVINGS ACCOUNTS (continued)

The savings account liability represents funds held on behalf of members by the Scheme. The savings account facility assists members in managing the cash flows for costs to be borne by them during the year, meeting provider service expenses not covered in the Scheme's approved benefits and meeting or self funding member co-payments for provider services rendered.

Unexpended savings at the 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 only refundable in terms of Regulation 10 of the Medical Schemes Act 131 of 1998, as amended. In accordance with the rules of the Scheme, the bad debt risk of savings account advances is underwritten by the Scheme.

The Scheme paid interest on positive balances in the member's medical savings accounts. The average interest rate paid during the year was 5.0% (2021: 4.5%) which is in line with what the Scheme earned on its member savings bank accounts.

At year-end the carrying amount of the members' personal medical savings accounts were deemed to be equal to its fair value due to the short term nature of this liability.

The personal medical savings accounts were invested on behalf of members in the following assets as at 31 December 2022:

| | 2022 | 2021 |
|-----------------------------------|--------------------|--------------------|
| | R | R |
| Ninety One - money market account | <u>152,031,771</u> | <u>155,524,662</u> |
| | <u>152,031,771</u> | <u>155,524,662</u> |

In terms of Circular 38 of 2011, this savings investment needs to be aligned with the savings account liability in the statement of financial position on a regular basis. The difference that exists at year-end is due to a timing nature. The reconciliation and alignment took place just after year-end.

7 TRADE AND OTHER PAYABLES

| | | |
|--|-------------------|-------------------|
| Unallocated receipts from members | 31,404 | 30,184 |
| Credit balances in trade and other receivables | 136,994 | 113,359 |
| Amounts payable to members | 1,595,841 | 1,805,723 |
| Amounts payable to providers | 10,787,631 | 9,560,935 |
| Sundry trade and other payables | <u>5,840,598</u> | <u>5,255,486</u> |
| | <u>18,392,468</u> | <u>16,765,687</u> |

At the year end the carrying value of trade and other payables approximate their fair values due to the short-term maturities of these liabilities.

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

8 OUTSTANDING RISK CLAIMS PROVISION

| | 2022 R | 2021 R |
|---|-------------------|-------------------|
| Provision for outstanding risk claims | 33,670,129 | 30,400,000 |
| | <u>33,670,129</u> | <u>30,400,000</u> |
| Analysis of movements in outstanding risk claims | | |
| Balance at beginning of year | 30,400,000 | 29,200,000 |
| Analysed as follows | | |
| Estimated net claims | 30,400,000 | 29,200,000 |
| Payments in respect of prior year | (25,337,496) | (32,516,364) |
| Over/ (under) provision in prior year (refer note 10) | 5,062,504 | (3,316,364) |
| Increase in provision for the current year | 28,607,625 | 33,716,364 |
| Balance at end of year | <u>33,670,129</u> | <u>30,400,000</u> |
| Analysed as follows | | |
| Estimated net claims | <u>33,670,129</u> | <u>30,400,000</u> |
| Balance at end of year | <u>33,670,129</u> | <u>30,400,000</u> |

Basis for determination of the outstanding risk claims provision

The outstanding risk claims provision is a provision for the estimated cost of healthcare benefits that have occurred before the statement of financial position date but have not been reported to the Scheme by that date. The provision is determined as accurately as possible based on a number of assumptions which are outlined below.

Process used to determine the assumptions

The process used to determine the assumptions is intended to result in realistic estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out on a regular basis. There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of risk claims development, prudent assumptions are used.

The actual method or blend of methods used varies by category of risk claims and observed historical risk claims development. To the extent that the historical risk claims development method is used, we assume that the historical pattern will occur again in the future. There are reasons why this may not be the case, which, in so far as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development or recording of risk claims paid and incurred (such as changes in claims submission mechanisms);
- changes in composition of members and their dependants;
- changes to legislation;
- variations in the nature and average cost incurred per risk claim; and
- random fluctuations.

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

8 OUTSTANDING RISK CLAIMS PROVISION (continued)

Notified risk claims are assessed with due regard to the claim circumstances, category, anticipated development, expected seasonal fluctuations, and information available from the administrators and managed care providers. The provisions are best estimates based on the most recent information available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by category of risk claims (i.e. hospital (major medical benefit), chronic, and day-to-day) due to differences in the underlying insurance contract, claim complexity, the volume of claims, the individual severity of claims, determining the occurrence date of a risk claim, and reporting lags.

Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding risk claims provision are the claim "run-off factors" for the most recent benefit years (split by discipline). The run-off factor is the expected percentage of claims paid out of total claims incurred in a specific month. This factor is then used to project the remainder of the outstanding risk claims relating to the specified service month. A "seasonality factor" is further incorporated into the calculation, also based on past risk claims experience. These assumptions have been used for assessing the outstanding risk claims provisions for the 2021 and 2022 benefit years.

Changes in assumptions

The table below outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. It should be noted that this is a deterministic approach with no correlations between the key variables.

Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable in the future may be required.

An analysis of sensitivity around various scenarios for the general medical insurance business provides an indication of the adequacy of the Scheme's estimation process. The Scheme believes that the liability for risk 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 risk claims arise. Consequently, if for example the claims run-off factors for the year were 1% slower, the impact on the outstanding risk claims provision and resulting impact on the net surplus of the Scheme would be as follows:

Impact due to changes in key variables

| | Change in variable | Change in outstanding risk claims provision | |
|---|---------------------------|--|---------------|
| | % | 2022 R | 2021 R |
| Hospital (major medical benefit) 1% slower claims run-off | 1% | 4,603,027 | 4,155,969 |
| Chronic 1% slower claims run-off | 1% | 335,765 | 303,155 |
| Day-to-day 1% slower claims run-off | 1% | 1,367,086 | 1,234,311 |

This analysis has been prepared for a change in a specified variable with other assumptions remaining constant.

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

| | 2022 R | 2021 R |
|---|--------------------|--------------------|
| 8 OUTSTANDING RISK CLAIMS PROVISION (continued) | | |
| The sensitivity is reduced by the value of the risk claims covered by the outstanding risk claims provision paid subsequent to the year end related to the period ended 31 December, as detailed below: | | |
| Outstanding risk claims provision | 33,670,129 | 30,400,000 |
| Portion of outstanding risk claims provision paid to 31 March 2023 (2021: 31 March 2022) | (31,796,874) | (23,444,870) |
| Residual estimate of risk claims provided | <u>1,873,255</u> | <u>6,955,130</u> |
| 9 RISK CONTRIBUTION INCOME | | |
| Gross contributions | 1,073,833,440 | 1,048,961,860 |
| Less: Savings contributions (refer note 6) | (160,362,962) | (156,590,322) |
| | <u>913,470,478</u> | <u>892,371,538</u> |
| 10 RISK CLAIMS INCURRED | | |
| Current year claims paid | 978,205,257 | 969,516,259 |
| Accredited managed healthcare services - no transfer of risk (refer note 12) | 21,028,057 | 20,461,879 |
| Movement in outstanding risk claims provision | 3,270,129 | 1,200,000 |
| - (Over)/ under provision in prior year (refer note 8) | (5,062,504) | 3,316,364 |
| - Adjustment for current year | 8,332,633 | (2,116,364) |
| Less: | | |
| - Claims paid from savings accounts (refer note 6) | (151,455,789) | (149,680,818) |
| - Recoveries from Road Accident Fund | (680,633) | (702,974) |
| - Recoveries from forensic investigations | (1,145,228) | (3,876,277) |
| | <u>849,221,793</u> | <u>836,918,069</u> |
| Claims incurred in respect of risk transfer arrangements: Netcare 911 | 5,516,387 | 4,307,455 |
| | <u>5,516,387</u> | <u>4,307,455</u> |
| Current year claims | <u>854,738,180</u> | <u>841,225,524</u> |
| 11 NET EXPENSE ON RISK TRANSFER ARRANGEMENTS | | |
| Netcare 911 | | |
| Risk transfer arrangement premiums paid | (6,225,144) | (6,110,743) |
| Risk transfer arrangement recoveries | 5,516,387 | 4,307,455 |
| | <u>(708,757)</u> | <u>(1,803,288)</u> |

Netcare 911 provides emergency rescue and ambulance services to members of the Scheme.

The value of the risk transfer arrangement recoveries was calculated and provided by Netcare 911.

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

| | 2022 | 2021 |
|--|-------------------|-------------------|
| | R | R |
| 12 ACCREDITED MANAGED HEALTHCARE SERVICES - NO TRANSFER OF RISK | | |
| Specialist and hospital utilisation management | 5,674,735 | 5,521,301 |
| Hospital benefit management | 6,518,992 | 6,343,919 |
| Pharmacy benefit management | 2,103,785 | 2,047,582 |
| Disease management | 6,730,545 | 6,549,077 |
| | <u>21,028,057</u> | <u>20,461,879</u> |
| 13 ADMINISTRATION FEES | | |
| Accredited services | | |
| Customer services | 16,642,233 | 16,193,427 |
| Information management and data control | 6,109,596 | 5,943,565 |
| Claims management | 3,768,792 | 3,045,480 |
| Member record management | 3,408,367 | 3,316,366 |
| Contribution management | 2,993,095 | 2,912,028 |
| Financial management | 123,406 | 119,509 |
| Other services | | |
| Forensic investigations and recoveries | 632,703 | 1,236,915 |
| Internal audit services | 505,379 | 491,977 |
| Actuarial services | 289,907 | 282,837 |
| Governance and compliance | 99,900 | 97,599 |
| Additional services | | |
| Quality Management and Monitoring Services | 475,996 | 464,092 |
| Advanced Data Analytics | 397,643 | 386,411 |
| Digital Service Offering | 144,954 | 141,419 |
| Product Innovation | 95,983 | 93,615 |
| Enhanced Service Offering | 80,312 | 77,681 |
| Enterprise risk management services | 80,312 | 77,681 |
| Legal Services | 21,547 | 21,910 |
| | <u>35,870,125</u> | <u>34,902,512</u> |

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

| | 2022 | Restated* |
|---|-------------------|-------------------|
| | R | 2021 |
| | | R |
| 14 OTHER ADMINISTRATION EXPENSES | | |
| Administration of 3rd party recoveries | 5,609 | 182,148 |
| AGM Costs | 214,840 | - |
| Auditor's remuneration - audit | 446,542 | 393,254 |
| Audit committee fees | 60,000 | 60,000 |
| Bank charges | 174,042 | 170,293 |
| Board of Healthcare Funders (BHF) subscriptions | 41,048 | 40,843 |
| Consultants costs | 350,675 | 337,295 |
| Fidelity insurance expense | 40,080 | 38,613 |
| Legal Fees | 483,017 | - |
| Principal Officer remuneration and related expenses | 922,522 | 909,568 |
| Registrar's levies | 725,896 | 750,048 |
| Subscriptions - benchmarking through health quality assessments | 70,486 | 68,540 |
| Sundry expenses | 17,787 | 72,261 |
| Trustees expenses (refer note 24) | 16,500 | (1,260) |
| | <u>3,569,044</u> | <u>3,021,603</u> |
| 15 NET IMPAIRMENT ON HEALTHCARE RECEIVABLES | | |
| Members' and service providers' portions | 497,676 | 906,792 |
| Movement in provision | (69,457) | 367,107 |
| Written off | 567,133 | 539,685 |
| | <u>497,676</u> | <u>906,792</u> |
| 16 INVESTMENT INCOME | | |
| Interest income | 22,814,008 | 15,320,771 |
| - Scheme interest* | 13,906,075 | 8,286,627 |
| - interest on savings balances | 8,907,933 | 7,034,143 |
| Dividends received* | 4,427,381 | 3,941,989 |
| | <u>27,241,389</u> | <u>19,262,759</u> |

*Refer to note 2

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

| | 2022 | Restated* |
|--|-------------------|-------------------|
| | R | 2021 |
| | | R |
| 17 REALISED AND UNREALISED GAINS ON FINANCIAL INSTRUMENTS | | |
| Realised gains | 4,803,372 | 2,933,314 |
| Unrealised gains on revaluation | 9,370,755 | 44,005,393 |
| Total realised and unrealised gains on revaluation of investments. | <u>14,174,127</u> | <u>46,938,706</u> |

*Refer to note 2

18 RELATED PARTY TRANSACTIONS

Discovery Health (Pty) Ltd

Discovery Health (Pty) Ltd ("Discovery"), as third party administrator and managed care organisation is deemed a related party as a result of their influence over the financial and operational functions of the Scheme, without having control. Discovery received market related administration and managed care fees as follows:

| | | |
|---|------------|------------|
| Administration fees (refer note 13) | 35,870,125 | 34,902,512 |
| Managed care: Management services (refer note 12) | 21,028,057 | 20,461,879 |
| Amounts owing to administrator at year-end | 4,845,330 | 4,604,963 |

Discovery Third Party Recovery Services

The Scheme has contracted Discovery Third Party Recovery Services Proprietary Limited (DTPRS), a wholly owned subsidiary of Discovery Health Proprietary Limited, to manage the identification and collection of third party recoveries from the Road Accident Fund.

| | | |
|-------------------------------|---------|---|
| Road Accident Fund recoveries | 111,152 | - |
|-------------------------------|---------|---|

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

18 RELATED PARTY TRANSACTIONS (continued)

Netcare Ltd

The Netcare Ltd Group is deemed a related party in that the Netcare Medical Scheme is a restricted membership scheme, and the membership comprises staff working for employer entities within this Group. Contributions received in note 8 are in part subsidised by the employer group. During the year, claims were paid by the Scheme to hospitals within the Netcare Ltd Group, in respect of treatment received by the members of the Scheme at those facilities. These costs are included in risk claims incurred in note 10.

In addition to the above, included in the pooled investment portfolios disclosed in note 3, are shares and bonds held in Netcare Ltd.

| | 2022 | 2021 |
|-------------------------------|-------------|-------------|
| | R | R |
| Netcare Ltd Group claims paid | 363,163,849 | 372,203,308 |

Netcare 911

Netcare 911, a division of the Netcare Ltd Group, and, based on utilisation, provided ambulance services to members of the Scheme during the year, for which it received market related fees. These fees are included in risk transfer arrangements in note 11.

| | | |
|------------------|-----------|-----------|
| Netcare 911 fees | 6,225,144 | 6,110,743 |
|------------------|-----------|-----------|

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

18 RELATED PARTY TRANSACTIONS (continued)

Trustees and Principal Officer

Contributions billed to, contributions received from, and claims paid in respect of Trustees of the Scheme during the year, were done so in accordance with the rules of the Scheme and the provisions of the Medical Schemes Act 131 of 1998, as amended. Accordingly, all Trustees were treated in the same manner by the Scheme as would any member have been, at arms length. Details of transactions with the Trustees and the Principal Officer are shown below:

| | 2022 | 2021 |
|---|-------------|-------------|
| | R | R |
| Principal Officer remuneration and related expenses | 922,522 | 909,568 |
| Amounts in respect of the Trustees: | | |
| Risk contribution received | 860,434 | 1,035,630 |
| Risk claims paid | (797,711) | (1,543,036) |
| MSA Interest | 5,892 | 5,973 |
| Positive savings balances | 71,380 | 135,022 |

Refer note 24 for a breakdown of Trustee expenses.

19 CRITICAL ACCOUNTING JUDGEMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Scheme's accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the annual financial statements:

Net impairment losses - outstanding contributions that are not recoverable

A historical experience basis has been applied to the current contribution billings to determine a reasonable estimate of potential future reversals of premiums already billed. In addition, outstanding contribution debtors have been assessed on an individual basis for possible impairment, and specific impairment provisions raised where applicable.

Net impairment losses - members' and service providers' portions

Accounts receivable from members and service providers are impaired where appropriate and accounts outstanding of 120 days and longer are fully impaired on a case by case basis.

Provision for outstanding risk claims

The provision for outstanding risk claims is an estimate of the potential liability at the reporting date for risk claims that have been incurred by members but not yet reported to the Scheme. The full details of the provision for outstanding risk claims are disclosed in note 8.

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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20 INSURANCE RISK MANAGEMENT

Risk management objectives and policies for mitigating medical insurance risk

The primary medical insurance activity carried out by the Scheme assumes the risk of loss from members and their dependants that are directly subject to the risk. These risks relate to the health of the Scheme members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of risk claims under the contract.

The Scheme manages its medical insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, service provider profiling, centralised management of risk transfer arrangements as well as the monitoring of emerging issues.

The Scheme uses several methods to assess and monitor medical insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of medical insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected.

Medical insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated.

Risk in terms of risk transfer arrangements

The Scheme cedes medical insurance risk to limit exposure to underwriting losses under various agreements that cover individual risks and defined blocks of business, on a co-insurance, yearly renewable term. These risk transfer arrangements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Scheme’s evaluation of the specific risk, subject in certain circumstances, to maximum limits based on characteristics of coverage. According to the terms of the capitation agreements, the suppliers provide certain minimum benefits to Scheme members, as and when required by the members. The Scheme does, however, remain liable to its members with respect to ceded medical insurance if any capitation provider fails to meet the obligations it assumes. When selecting a capitation provider the Scheme considers its stability from public rating information and from internal investigations.

Risk management objectives and policies for mitigating insurance risk

The following table summarises the concentration of medical insurance risk on a beneficiary level, with reference to the amount of 2022 medical insurance claims paid in the 2022 financial year, by age group and in relation to the type of risk covered or benefits provided.

| 2022 Age group (in years) | Hospital (major medical) R | Chronic R | Day to day R | Total R |
|--|---|----------------------|-------------------------|--------------------|
| < 26 | 93,029,456 | 2,626,030 | 36,726,767 | 132,382,253 |
| 26 - 35 | 82,010,792 | 3,737,021 | 38,550,750 | 124,298,563 |
| 36 - 50 | 137,793,342 | 13,481,411 | 65,848,587 | 217,123,340 |
| 51 - 65 | 132,491,980 | 16,094,562 | 54,331,805 | 202,918,347 |
| > 65 | 88,675,094 | 8,285,473 | 27,728,903 | 124,689,469 |
| Total | 534,000,664 | 44,224,497 | 223,186,813 | 801,411,973 |

NETCARE MEDICAL SCHEME

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for the year ended 31 December 2022

20 INSURANCE RISK MANAGEMENT (continued)

| 2021 Age group (in years) | Hospital (major medical) | Chronic | Day to day | Total |
|------------------------------|--------------------------------|-------------------|--------------------|--------------------|
| | R | R | R | R |
| < 26 | 75,223,940 | 3,649,728 | 36,096,338 | 114,970,006 |
| 26 - 35 | 72,500,126 | 4,487,364 | 45,854,667 | 122,842,157 |
| 36 - 50 | 131,304,710 | 14,836,166 | 70,281,928 | 216,422,804 |
| 51 - 65 | 149,491,843 | 18,180,598 | 53,606,227 | 221,278,668 |
| > 65 | 76,833,376 | 8,733,302 | 26,238,764 | 111,805,442 |
| Total | 505,353,995 | 49,887,158 | 232,077,924 | 787,319,077 |

Reconciliation of net claims to current year claims paid:

| | 2022 R | 2021 R |
|---|--------------------|--------------------|
| Total risk claims as above | 801,411,973 | 787,319,077 |
| Prior year risk claims paid | 25,337,496 | 32,516,364 |
| Claims paid from member's savings accounts | 151,455,789 | 149,680,818 |
| Current year claims paid (refer note 10) | 978,205,258 | 969,516,259 |

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.

All the contracts are annual in nature and the Scheme has the right to change the terms and conditions of the contract at renewal. Management information including contribution income and claims ratios, is reviewed monthly. There is also a program that regularly reviews contractual premium and benefit data to ensure adherence to the Scheme's objectives.

Risk claims development

Risk claims development tables are not presented since the uncertainty regarding the amount and timing of claim payments is typically resolved within one year.

Sensitivity to insurance risk

A sensitivity analysis is provided below reflecting the impact on the Scheme's reported results for the year assuming a 1% increase/(decrease) in the cost of claims incurred, with all other variables held constant.

| Sensitivity to insurance risk | Increase of 1% R | Decrease of 1% R |
|---------------------------------|------------------------|------------------------|
| 2022 | | |
| In-hospital PMB claims incurred | (5,340,007) | 5,340,007 |
| Chronic PMB claims incurred | (442,245) | 442,245 |
| Day-to-day claims incurred | (2,231,868) | 2,231,868 |
| Total | (8,014,120) | 8,014,120 |
| 2021 | | |
| In-hospital PMB claims incurred | (5,053,540) | 5,053,540 |
| Chronic PMB claims incurred | (498,872) | 498,872 |
| Day-to-day claims incurred | (2,320,779) | 2,320,779 |
| Total | (7,873,191) | 7,873,191 |

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

21 ANALYSIS OF CARRYING AMOUNTS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES PER CATEGORY

The following is a breakdown of the carrying amount of the different classes of financial instruments, which is a reasonable approximation of fair value:

| | Fair value through profit or loss designated upon initial recognition | Loans and receivables | Financial liabilities measured at amortised cost | Insurance receivables and payables | Total carrying amount |
|---|--|----------------------------------|---|---|----------------------------------|
| | R | R | R | R | R |
| 2022 | | | | | |
| Trade and other receivables | - | 44,183 | - | 6,325,532 | 6,369,715 |
| Investments held at fair value through profit or loss | 545,301,354 | - | - | - | 545,301,354 |
| Cash and cash equivalents | - | 243,320,076 | - | - | 243,320,076 |
| Trade and other payables | - | - | (5,840,598) | (12,551,870) | (18,392,468) |
| Members savings account balances | - | - | (152,261,648) | - | (152,261,648) |
| Outstanding risk claims provision | - | - | - | (33,670,129) | (33,670,129) |
| Total | 545,301,354 | 243,364,259 | (158,102,246) | (39,896,467) | 590,666,900 |
| *Restated | | | | | |
| 2021 | | | | | |
| Trade and other receivables | - | 47,444 | - | 4,621,826 | 4,669,270 |
| Investments held at fair value through profit or loss | 528,246,065 | - | - | - | 528,246,065 |
| Cash and cash equivalents | - | 207,893,240 | - | - | 207,893,240 |
| Trade and other payables | - | - | (5,255,486) | (11,510,201) | (16,765,687) |
| Members savings account balances | - | - | (151,501,278) | - | (151,501,278) |
| Outstanding risk claims provision | - | - | - | (30,400,000) | (30,400,000) |
| Total | 528,246,065 | 207,940,684 | (156,756,764) | (37,288,375) | 542,141,610 |

*Refer to note 2

22 Financial Risk Management

Interest rate Risk

Interest rate risk is the exposure that the Scheme has to changes in interest rates. This is not a significant risk to the Scheme as it holds no debt with the exception of the member's saving liability on which interest is paid. The main exposure to the Scheme would be a reduction in interest income on investments if interest rates were to decrease. In order to reduce the impact of any potential interest rate changes, the Scheme holds a diversified portfolio of investments both long and short term.

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

| | Up to 1 month | 1 - 3 months | 3 - 12 months | Non-interest bearing (no stated maturity) | Carrying amount |
|---|--------------------------|-------------------------|--------------------------|--|----------------------------|
| | R | R | R | R | R |
| 2022 | | | | | |
| Trade and other receivables | - | - | - | 6,369,715 | 6,369,715 |
| Investments held at fair value through profit or loss | 238,905,465 | - | - | 306,395,889 | 545,301,354 |
| Cash and cash equivalents | 243,320,076 | - | - | - | 243,320,076 |
| Total | 482,225,541 | - | - | 312,765,604 | 794,991,145 |
| *Restated | | | | | |
| 2021 | | | | | |
| Trade and other receivables | - | - | - | 4,669,270 | 4,669,270 |
| Investments held at fair value through profit or loss | 260,304,147 | - | - | 267,941,918 | 528,246,065 |
| Cash and cash equivalents | 207,893,240 | - | - | - | 207,893,240 |
| Total | 468,197,387 | - | - | 272,611,188 | 740,808,574 |

If interest rates changed by 1%, assuming all other variables remain constant, and the recent past is predictive of the future, the impact on return on investment and the resulting impact on the net surplus of the Scheme is as follows:

| | 2022 R | 2021 R |
|-----------------------------|-------------------|-------------------|
| Change in investment income | 4,822,255 | 4,681,974 |

Only cash and cash equivalents are directly exposed to fluctuations in interest rates.

*Refer to note 2

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

22 FINANCIAL RISK MANAGEMENT (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Scheme operates in South Africa and therefore its cash flows are denominated in South African Rand (ZAR). The Scheme is not directly exposed to currency risk in relation to investments as all are denominated in South African Rand.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market place.

Equities and bonds are reflected at market values, which are susceptible to fluctuations. The Scheme manages its market risk by employing the following procedures:

- mandating a specialist fund manager to invest in equities, where there is an active market and where access is gained to a broad spectrum of financial information relating to the companies invested in;
- diversifying across many securities to reduce risk. Diversification is guided by the Medical Schemes Act; and
- considering the risk-reward profile of holding equities and bearing the risk in order to obtain higher expected returns on assets.

Should the South African bond and equities markets change by 2%, assuming all other variables remain constant, and the recent past is predictive of the future, the impact on return on investment and the resulting impact on the net surplus of the Scheme would be as follows:

| | 2022 | 2021 |
|--------|-------------|-------------|
| | R | R |
| Bonds | 3,568,342 | 2,477,243 |
| Equity | 2,559,576 | 2,881,596 |

Credit risk

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

The Scheme's credit risk is primarily attributable to trade and other receivables. The amounts presented in the statement of financial position are net of allowances for possible impairment losses, estimated by the Scheme's management based on prior experience and the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks and financial institutions with high credit ratings assigned by international credit rating agencies.

| Trade and other receivables | 2022 | 2021 |
|---|-------------------------|-------------------------|
| | R | R |
| Fully performing | 6,369,715 | 4,669,270 |
| Past due and impaired | 4,067,749 | 4,137,205 |
| | <u>10,437,464</u> | <u>8,806,475</u> |
| Provision for impairment of trade and other receivables | (4,067,749) | (4,137,205) |
| Trade and other receivables (note 3) | <u><u>6,369,715</u></u> | <u><u>4,669,270</u></u> |

For detailed explanation of impairment procedures for the Scheme, refer Note 19.

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

22 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents by monitoring the availability of funding through liquid-holding cash positions with various financial institutions. This ensures that the Scheme has the ability to fund its day-to-day operations.

The table below analyses the assets and liabilities of the Scheme into relevant maturity groupings based on the remaining period at year end to the contractual maturity date:

| | Up to 1 month R | 1 - 3 months R | 3 - 12 months R | Total R |
|---|-----------------------|----------------------|-----------------------|-------------|
| As at 31 December 2022 | | | | |
| Current assets | 488,595,256 | 306,395,888 | - | 794,991,143 |
| Trade and other receivables | 6,369,715 | - | - | 6,369,715 |
| Investments held at fair value through profit or loss | 238,905,465 | 306,395,888 | - | 545,301,352 |
| Cash and cash equivalents | 243,320,076 | - | - | 243,320,076 |
| Current liabilities | 47,821,730 | 11,649,576 | 144,852,939 | 204,324,245 |
| Trade and other payables | 18,392,468 | - | - | 18,392,468 |
| Members savings account balances | 6,726,149 | 2,555,816 | 142,979,684 | 152,261,648 |
| Outstanding risk claims provision | 22,703,113 | 9,093,761 | 1,873,255 | 33,670,129 |
| Net positive/(negative) liquidity | 440,773,526 | 294,746,311 | (144,852,939) | 590,666,898 |
| *Restated | | | | |
| As at 31 December 2021 | | | | |
| Current assets | 472,866,657 | 267,941,918 | - | 740,808,575 |
| Trade and other receivables | 4,669,270 | - | - | 4,669,270 |
| Investments held at fair value through profit or loss | 260,304,147 | 267,941,918 | - | 528,246,065 |
| Cash and cash equivalents | 207,893,240 | - | - | 207,893,240 |
| Current liabilities | 39,097,362 | 10,395,159 | 149,174,444 | 198,666,965 |
| Trade and other payables | 16,765,687 | - | - | 16,765,687 |
| Members savings account balances | 6,726,149 | 2,555,816 | 142,219,314 | 151,501,278 |
| Outstanding risk claims provision | 15,605,527 | 7,839,343 | 6,955,130 | 30,400,000 |
| Net positive/(negative) liquidity | 433,769,294 | 257,546,759 | (149,174,444) | 542,141,610 |

*Refer to note 2

Fair value estimation and hierarchy

The fair value of publicly traded financial instruments held at fair value through profit or loss and held through insurance policies, is based on quoted bid prices in an active market at the statement of financial position date.

For all financial assets and liabilities held at year end, the carrying values approximate their fair values.

Fair value by hierarchy level:

| | 2022 R | 2021 R |
|---|-------------|-------------|
| Level 1 * | | |
| Investments held at fair value through profit or loss | 545,301,354 | 344,052,659 |

* Level 1 - Financial assets whose fair value is determined directly by reference to published price quotations in an active market.

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

22 FINANCIAL RISK MANAGEMENT (continued)

Capital adequacy risk (Restated*)

This represents the risk that there are insufficient reserves to provide for adverse variations on actual and future experience. The Scheme defines its capital as accumulated funds as detailed in the statement of changes in funds and reserves. The Scheme manages its capital to ensure that it will be able to continue as a going concern as well as meet the solvency ratio of 25%, as regulated by the Medical Schemes Act 131 of 1998, as amended.

The Scheme had R590.7 million (2021: R542.1 million) of accumulated funds at 31 December 2022, which translated to a solvency ratio of 49.1% (2021: 46.6%).

The solvency ratio increased from 46.6% to 49.1% and accumulated funds increased in the current year. The financial results will be monitored closely to ensure the sustainability of the Scheme. These interventions include a number of designated service providers, managed care initiatives and continuous monitoring of the investment portfolios.

*Refer to note 2

23 CONTINGENT ASSETS

The Scheme has approximately R29.1 million (2021: R23.2 million) in recoveries outstanding from the Road Accident Fund (RAF) for claims paid on behalf of members. The general likelihood of recovery of these amounts is uncertain, and the Trustees have elected not to recognise a debtor on the statement of financial position as any future recoveries are contingent on a multitude of factors. The Trustees consider, based on past experience and the current financial stability of the RAF, that the debtor, were it to be recognised would be impaired by R29.1 million (2021: R23.2 million).

24 TRUSTEE EXPENSES

| | 2022 R | 2021 R |
|----------------|---------------|---------------|
| Travel cost | | |
| - A Boers | 16,500 | (1,260) |
| Gifts | | |
| - S Khuboni | 1,500 | 1,500 |
| - S Pretorius | 1,500 | 1,500 |
| - P Seetul | 1,500 | 1,500 |
| - S Vilakazi | 1,500 | 1,500 |
| - A Boers | 1,500 | 1,500 |
| - D Longueira | 1,500 | 1,500 |
| - C Maslo | 1,500 | 1,500 |
| - E Michen | 1,500 | 1,500 |
| - M Toubkin | - | - |
| - E van Rooyen | 1,500 | 1,500 |
| - Z Mani | - | 1,500 |
| - S Machaba | 1,500 | - |
| - M Botha | 1,500 | 1,500 |
| | <u>16,500</u> | <u>16,500</u> |

None of the Trustees are remunerated for their attendance at meetings.

25 FIDELITY COVER AND PROFESSIONAL INDEMNITY INSURANCE

The Scheme participated in fidelity insurance and professional indemnity cover provided by Ace Insurance Limited on behalf of AON South Africa (Pty) Ltd, amounting to R30 million (2021: R30 million).

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

26 NON-COMPLIANCE MATTERS

The Trustees are of the opinion that there are no material deviations from the Medical Schemes Act 131 of 1998 as amended.

26.1 Outstanding contributions

Nature and impact

In terms of Section 26(7) of the Act, contributions should be received in accordance with the rules of the Scheme. Per the Scheme rules, contributions are required to be received within three days after their due date. Instances were noted where contributions were received late.

Causes for failure

Balances after 3 days are due to defaults by direct paying members. Direct paying members are limited to pensioners or disability members no longer employed by Netcare Ltd or its subsidiaries. The risk of default on payments due to the Scheme is small because of the restricted nature of the Scheme and employer base.

Corrective action

Suspension policies are in place and applied where contributions are outstanding beyond the Scheme's available credit terms.

26.2 Payment of claims within 30 days

Nature and impact

In terms of Section 59(2) of the Act a member or provider claim should be settled within 30 days of submission. Instances were noted where settlements took more than 30 days.

Causes for failure

Delays can occur when accounts are referred for clinical audit or other investigations. These are however the exceptions, and claims are generally paid within the prescribed time.

Corrective action

The Scheme is aware of the requirements and complies as far as possible. Refer to note 18 of the annual financial statements for further disclosure.

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

26 NON-COMPLIANCE MATTERS (continued)

26.3 Investment in administrators

Nature and impact

In terms of Section 35(8)(c) of the Act a medical scheme shall not invest any of its assets in any administrator. During the year under review the Scheme had indirect investments in Administrators of Medical Schemes.

Causes for failure

The Scheme invests in pooled investment vehicles that allow investment managers 100% discretion to invest in a combination of shares and bonds that best achieve the stipulated benchmark.

Corrective action

The Scheme made an application to the Council for Medical Schemes for an exemption from this section of the Act. An exemption has been granted by the Council for Medical Schemes until 30 November 2025.

26.4 Composition of the Board of Trustees

Nature and impact

In terms of Section 57(2) of the Act and in Rule 18(1) of the Scheme's registered Rules at least 50% of the members of the board of trustees shall be elected from amongst members.

Causes for failure

The Scheme embarked upon a member elections process during 2022 for the nomination and appointment of replacement member trustees. However, it was identified that due to an inadvertent oversight, a valid nominee's name had been omitted from the Scheme's list of nominees.

Corrective action

The Scheme became aware of this omission two days prior to the scheduled 2022 Annual General Meeting. The Scheme was of the view that the aforesaid oversight rendered the voting process invalid. As there was insufficient time before the Annual General Meeting to re-run the member elections, the Scheme immediately reported the matter to the Council for Medical Schemes (CMS) seeking guidance on remedial action. The Scheme took action to re-run the election and ensure that the oversight was addressed.

In accordance with senior counsel's advice, the Scheme made an application to the CMS for an exemption from this section of the Act for the express purpose of addressing this matter. The CMS declined the application on the basis that the current Board of Trustees was not properly constituted, and that in any event, a non-compliance exemption may only be granted where the non-compliance had not yet occurred.

Based on the legal advice it received, the Scheme is in respectful disagreement with the decision of the CMS. The Scheme has therefore lodged an Appeal with the Appeal Board constituted by the Act and has also made an application to the High Court for appropriate relief, both of which are pending.

NETCARE MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2022

26 NON-COMPLIANCE MATTERS (continued)

26.5 Composition of the Board Audit Committee

Nature and impact

In terms of Section 36(10) of the Act, the Board of Trustees shall appoint an audit committee of at least five members of which at least three shall be independent of the Board of Trustees. At the meeting of 15th August 2022 there were only 2 independent members.

Causes for failure

A vacancy arose on the audit committee for an independent member. In line with the Scheme's Board Audit Committee Terms of Reference, this had to be filled within three months. The delay in finalizing the appointment of a new Board Audit Committee member was due to the ongoing section 57(2) Board non-compliance noted above.

Corrective action

The process to fill the vacancy commenced upon confirmation from the Council for Medical Schemes to continue with the business of the Scheme as usual and L Phelane was appointed to the Board Audit Committee on 14 November 2022.

27 CAPITAL COMMITMENTS

There were no capital commitments as at 31 December 2022.

28 SUBSEQUENT EVENTS

There were no events after the reporting date that had a material impact on the Scheme.