

TFG MEDICAL AID SCHEME
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2022

TFG MEDICAL AID SCHEME

ANNUAL FINANCIAL REPORT

for the year ended 31 December 2022

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TFG MEDICAL AID SCHEME

FINANCIAL STATEMENTS

for the year ended 31 December 2022

TRUSTEES' RESPONSIBILITY AND APPROVAL

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

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

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

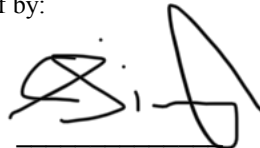
The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the financial statements

The financial statements of TFG Medical Aid Scheme, as identified in the first paragraph, were approved by the Trustees on 25 April 2023 and are signed on their behalf by:



MR P BARNARD
CHAIRPERSON



MR C SINGH
TRUSTEE



MS C HARRIS
PRINCIPAL OFFICER

TFG MEDICAL AID SCHEME

FINANCIAL STATEMENTS

for the year ended 31 December 2022

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

TFG Medical Aid Scheme (the Scheme) is committed to the principles and practice of responsibility, accountability, fairness and transparency with its dealings with all stakeholders. The Scheme is committed to ensure compliance with recognised framework and conducting its affairs in accordance with ethical values, furthermore to ensure the adoption of risk assessment, evaluation and management processes with regular monitoring of third party administrators and providers in accordance with the service level agreements. This includes an evaluation of their performance as a Board and of the Board sub-committees against an agreed terms of reference and performance targets, establishment and management of internal controls by assessing the adequacy and effectiveness through the appointment of an internal auditor and calling on of expert and professional advice when required. Four Trustees are appointed by the Employer of the Scheme and four are elected by the members of the Scheme.

BOARD OF TRUSTEES


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

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

INTERNAL CONTROL

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

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



MR P BARNARD
CHAIRPERSON



MR C SINGH
TRUSTEE



MS C HARRIS
PRINCIPAL OFFICER

25 April 2023

TFG MEDICAL AID SCHEME

REPORT OF THE BOARD OF TRUSTEES

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

1. DESCRIPTION OF MEDICAL SCHEME

1.1 Terms of registration

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

1.2 Benefit options within TFG Medical Aid Scheme

The Scheme offers two benefit options, with no option of a savings account, to current and retired employees of The Foschini Group Limited and its subsidiaries. The benefit options are:

- TFG Health; and
- TFG Health Plus

2. MANAGEMENT

2.1 Board of Trustees in office during the year under review

Employer appointed trustees

Mr M Wilson (Chairperson) *

Mr P Barnard (Vice Chairperson) *

Ms N Koopman

(Appointed: 21 June 2022)

Ms A Kotze

(Resigned: 21 June 2022)

Mr C Singh *

(Appointed: 21 June 2022)

Mr M Van Est

(Resigned: 21 June 2022)

Member elected trustees

Mr L Abrahams

Ms K Buys

(Resigned: 21 June 2022)

Ms T le Roux

(Appointed: 21 June 2022)

Ms J Vandenbroucke

Mr R Walther

Co-opted member

Mr R Karamchund

(Appointed: 27 June 2022)

* Mr M Wilson stepped down as chairperson on 1 March 2023 and Mr P Barnard was elected as the new chairperson effective 1 March 2023. Mr C Singh was elected as vice chairperson effective 1 March 2023)

2.2 Principal Officer

Ms C Harris

Foschini Retail Group (Pty) Ltd

Stanley Lewis Centre

340 Voortrekker Road

Parow East

7501

PO Box 6020

Parow East

7501

2.3 Registered office address and postal address

1 Discovery Place

Sandton

2196

PO Box 786722

Sandton

2146

2.4 Scheme's administrator during the year

Discovery Health (Pty) Ltd

1 Discovery Place

Sandton

2196

PO Box 786722

Sandton

2146

TFG MEDICAL AID SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)

2.5 Principal Banker

First National Bank
PO Box 1153
Johannesburg
2000

2.6 Auditor

Deloitte & Touche
The Ridge Building
6 Marina Road
Portwood District
V&A Waterfront, Cape Town
8000

2.7 Actuarial Consultants

Alexander Forbes Financial Services Holdings (Pty) Ltd
40 Dorp Street
Stellenbosch
7599

PO Box 700
Stellenbosch
7599

2.8 Investment Consultants

Towers Watson (Pty) Ltd
Montclare Place
23 Main Road
Claremont
7708

Private Bag X30
Rondebosch
7701

3. INVESTMENT STRATEGY

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

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

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

The Scheme invested in money market funds and cash instruments during 2022 to ensure sufficient liquidity.

The Scheme also invested in an equity Policy of Insurance through Allan Gray Life Limited which at year-end amounted to 27% (2021: 26%) of the Scheme's assets. The Scheme also invested 13% (2021: 14%) of its asset value in a Sanlam Investment Management Absolute Return Medical Aid Portfolio, 13% (2021: 14%) of its asset value in a Prescient Life Positive Return Medical Aid Portfolio and 27% (2021: 22%) in the Old Mutual Capped All Share Index Fund. The objective with these investments is to maximise capital growth over a longer term.

The investment policy is reviewed on an ongoing basis, taking into consideration compliance with the Act, the risk and returns of various investment instruments and the surplus funds available to invest.

TFG MEDICAL AID SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)

4. MANAGEMENT OF INSURANCE RISK

The primary insurance activity carried out by the Scheme indemnifies covered members and their dependants against the risk of significant loss arising as a result of the occurrence of a health event (i.e. an event relating to the health of the Scheme's beneficiary). As such, the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

The Scheme manages its insurance risk through benefit limits and sub-limits, application of clinical protocols, approval procedures for transactions that exceed set limits, pricing guidelines, pre-authorisation and case management, service provider profiling, and the regular monitoring of emerging issues.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and/or severity of claims is greater than expected.

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

The Board of Trustees frequently assess the necessity to enter into risk transfer arrangements in order to manage the Scheme's insurance risk.

5. REVIEW OF ACCOUNTING PERIOD ACTIVITIES

5.1 Results of operations

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

TFG MEDICAL AID SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)

5.2 Operational statistics per benefit option

	2022	2022	2022
	TFG Health	TFG Health Plus	Total
Number of members at year-end	1,671	1,398	3,069
Average number of members for the accounting period	1,683	1,459	3,142
Average number of beneficiaries for the accounting period	3,539	3,324	6,863
Beneficiaries per member	2.1	2.3	2.2
Average age per beneficiary	29	38	33
Pensioner ratio (beneficiaries >65 years old)	4%	13%	8%
Average risk contribution pmpm	R 2,662	R 6,929	R 4,644
Average risk contribution pbpm	R 1,266	R 3,042	R 2,126
Average relevant healthcare expenditure pmpm	R 2,268	R 6,050	R 4,024
Average relevant healthcare expenditure pbpm	R 1,079	R 2,655	R 1,842
Average administration expense pmpm	R 268	R 268	R 268
Average managed care: management services pmpm	R 115	R 115	R 115
Relevant healthcare expenditure as a percentage of contributions	85.2%	87.3%	86.7%
Non-healthcare expenditure as a percentage of contributions	12.7%	4.9%	7.3%
Return on investments as a percentage of investments	-	-	6.3%
Accumulated funds per member at 31 December	-	-	R 88,472

	2021	2021	2021
	TFG Health	TFG Health Plus	Total
Number of members at year-end	1,663	1,549	3,212
Average number of members for the accounting period	1,601	1,568	3,169
Average number of beneficiaries for the accounting period	3,372	3,624	6,996
Beneficiaries per member	2.1	2.3	2.2
Average age per beneficiary	29	37	33
Pensioner ratio (beneficiaries >65 years old)	4%	11%	7%
Average risk contribution pmpm	R 2,351	R 6,362	R 4,335
Average risk contribution pbpm	R 1,116	R 2,753	R 1,964
Average relevant healthcare expenditure pmpm	R 2,442	R 5,180	R 3,797
Average relevant healthcare expenditure pbpm	R 1,160	R 2,241	R 1,720
Average administration expense pmpm	R 255	R 255	R 255
Average managed care: management services pmpm	R 109	R 109	R 109
Relevant healthcare expenditure as a percentage of contributions	103.9%	81.4%	87.6%
Non-healthcare expenditure as a percentage of contributions	12.9%	4.8%	7.0%
Return on investments as a percentage of investments	-	-	13.4%
Accumulated funds per member at 31 December	-	-	R 75,951

pmpm - per member per month

pbpm - per beneficiary per month

TFG MEDICAL AID SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)

5.3 Outstanding claims

Movements on the outstanding claims provisions are clearly set out in the notes to these financial statements. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Scheme.

5.4 Accumulated funds ratio	2022 R	2021 R
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per statement of financial position	271,521,639	243,955,740
Less: Cumulative net gains on re-measurement to fair value of financial instruments	(54,198,954)	(42,323,504)
Accumulated funds per Regulation 29	217,322,685	201,632,236
Gross risk contribution income (Note 8)	175,086,735	164,867,875
Accumulated funds ratio per Regulation 29	124.12%	122.30%

6. COMMITTEES

6.1 Audit Committee

An Audit Committee, established in accordance with the provisions of the Act, is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The Committee consists of six members of which two are members of the Board of Trustees. The rest of the members, including the chairperson, are not officers of the Scheme or its third party administrator. The Committee met twice during 2022. Attendance of these meetings are disclosed in note 10 of the Report of the Board of Trustees.

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

6.2 Investment Committee

The Board of Trustees established an Investment Committee to assist the Board in carrying out their duties relating to the Scheme's investment policy and strategy. It is mandated by means of written terms of reference as to its membership, authority and duties.

The Committee consists of three trustees and the Principal Officer. The Scheme appointed Willis Towers Watson as independent investment consultant to assist the Committee. The Scheme's Administrator and Actuary also attend committee meetings.

The Committee met regularly during the year and reviewed the strategy in accordance with the mandate set by the Board of Trustees.

6.3 Ex Gratia Committee

The Ex Gratia Committee is mandated by the Board of Trustees to assist qualifying members by awarding ex gratia payments where services were either denied or rejected due to limited or uncovered benefits. These awards are granted appropriately according to the merits of each case.

The committee consists of five members and the committee meets if and when required.

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

The Scheme has granted no loans to the participating employers of the Scheme. Refer to note 9.2 of the Report of the Board of Trustees for details about investments in the participating employer.

TFG MEDICAL AID SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)

8. ACTUARIAL SERVICES

The Scheme's actuaries have been consulted in the determination of the contribution and benefit levels. They monitor the Scheme's claims expenditure and underwriting results on a monthly basis.

9. NON-COMPLIANCE MATTERS

9.1 Contributions not received within three days of it becoming due

In terms of Section 26(7) of the Act, all contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due.

There were a small number of instances, during the year, where the Scheme received contributions after three days of becoming due, however, there are no contracts in place agreeing to this arrangement.

Procedures are in place regarding the collection of these contributions.

9.2 Investment in participating employer and medical administrators

In terms of Section 35(8) of the Act, a medical scheme is prohibited from investing any of its assets in an employer who participates in that scheme or any medical scheme administrators.

At 31 December 2022 the Scheme held shares through linked life policies in The Foschini Group Ltd to the value of R644,845 (2021: R338,941), in Momentum Metropolitan Holdings to the value of R988,041 (2021: R457,092), in Discovery Ltd to the value of R694,280 (2021: R410,997) and in Sanlam Limited to the value of R1,060,140 (2021: R879,891).

Funds in this specific portfolio are structured at the sole discretion of the asset manager in a manner that maximizes returns. Therefore the Scheme does not make inputs into the structuring of the portfolio. The Scheme received exemption from this section of the Act until 30 November 2025 at which stage the Scheme will apply for a further exemption.

9.3 Claims not settled within 30 days

In terms of Section 59(2) and Regulation 6(2) of the Act a medical scheme shall pay a member or supplier of services any benefit owing to that member or supplier within 30 days of receipt of the medical claim.

A limited number of exceptions were noted where settlement took longer than 30 days from receipt. These were limited to more complex claims and management is committed to resolve these matters in a responsible manner and in the best interest of the member and the Scheme.

9.4 Investment in local equities

In terms of Regulation 30 and Annexure B a medical scheme is only allowed to invest up to 40% of investable assets in local equities. As 31 December 2022 the Scheme's equity holding exceeded this limit.

Regulation 30(3A) provides that assets in excess of the minimum specified in Regulation 30 may be allocated according to different percentages if a medical scheme provides the Registrar of Medical Schemes with a certified statement from a suitably qualified person. The Scheme provided such statement to the Registrar of Medical Schemes, and the Scheme is investing within the suggested percentages.

TFG MEDICAL AID SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)

10 MEETING ATTENDANCES

The following schedule sets out Board of Trustee meeting attendances and attendances by members of board sub-committees.

Trustee/Sub-committee member	Board of Trustee meetings		Audit committee meetings		Investment Committee meetings		Ex Gratia committee meetings	
	A	B	A	B				
Mr M Wilson (Chairperson)	8	7	2	2	4	4	4	4
Mr P Barnard (Vice Chairperson)	8	8			4	4		
Mr L Abrahams	8	8					4	4
Ms K Buys #	4	3	1	0			2	2
Mr R Karamchund @#	3	3						
Ms N Koopman #	4	3	1	1			1	1
Ms A Kotze #	4	3					2	2
Ms T le Roux	8	8						
Mr C Singh	8	8					1	1
Mr M Van Est #**	4	4	2	2	2	2		
Ms J Vandembroucke	8	8					4	4
Mr R Walther	8	7			4	3		
Mr A Bishoon *			2	2				
Ms S Senekal *#			1	1				
Ms R Strauss *			2	2				
Ms M von Solms (Audit Comm Chairman) *#			2	2				
Ms C Harris (Principal Officer)	8	8	2	2	4	4	4	4

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

B - Actual number of meetings attended

* - Independent audit committee member

@ - Co-opted member

Appointed or resigned during the year

** Mr Van Est became an independent audit committee member after he resigned as trustee.

11 SUBSEQUENT EVENTS

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

INDEPENDENT AUDITOR'S REPORT

To the Members of the TFG Medical Aid Scheme

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the TFG Medical Aid Scheme (the Scheme) set out on pages 16 to 49 which comprise the statement of financial position as at 31 December 2022, the statement of comprehensive income, the statement of changes in funds and reserves and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the TFG Medical Aid 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 (IFRSs) 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 the audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



National Executive: *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 Matters	How the Matter was Addressed during the audit
Outstanding Claims Provision	
<p>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.</p> <p>This amount is disclosed on the face of the Statement of Financial Position as well as in note 5 of the annual financial statements. This matter is considered a key audit matter as the underlying calculation requires the use of significant assumptions, estimates and judgement by management.</p>	<ul style="list-style-type: none"> • We have assessed the report and expertise of the organisation performing the calculation for reasonability; • We performed tests of detail on the current year payments relating to the prior year provision to assess the degree of accuracy in the estimate; • We challenged key assumptions over future claims to be paid and the calculation methodology therein; and • We engaged with management around the rationale for any adjustments or decisions over and above the numeric calculation. <p>Our procedures satisfied us to the reasonableness of the estimate.</p>
Risk Claims Incurred	
<p>Risk claims incurred is a key audit focus area and represents a significant expense in the Statement of Comprehensive Income. This amount is disclosed on the face of the Statement of Comprehensive Income as well as in note 8 of the annual financial statements. The occurrence and accuracy of the claims are dependent on the Scheme’s administration and IT system involved in the processing of claims. Due to extensive audit focus and the high volume of claims processed by the Scheme, risk claims incurred was considered a key audit matter for this year end.</p>	<ul style="list-style-type: none"> • We assessed the report of internal audit over the claims control environment and concluded that a substantive approach was the appropriate approach to follow; • We compared a sample of the claim expenses paid to the actual claim form submitted, the benefits balance and tariffs provided for in terms of the rules and the applicable PMB in order to assess validity of actual claims paid; • We calculated the number of days between date of payment and date of receipt of claim, and investigated reasons for claims paid after more than 30 days; • We tested whether the claims selected for testing were submitted within four months of treatment date; • We used computer assisted audit techniques (“CAATs”) to identify potential duplicate claim payments, and tested a sample of these to verify whether these were “valid” duplicates; and • We verified that contributions were up to date at the date of treatment where claims were paid, or obtained proof that appropriate approval was obtained from the trustees to pay the claim.

Other Information

The Scheme’s Trustees are responsible for the other information. The other information comprises of the Scheme details, Trustees' responsibility and approval, Statement of corporate governance by the Board of Trustees and the Report of the Board of Trustees as required by the Medical Schemes Act of South Africa. 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 during the audit, or otherwise appears to be materially misstated.

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

Trustees' Responsibility for the Annual Financial Statements

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

In preparing the annual financial statements, the 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 trustees either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the annual 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 annual financial statements.

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

- Identify and assess the risks of material misstatement of the annual 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 trustees.
- Conclude on the appropriateness of the trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual 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 annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee 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 Audit Committee 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 Audit Committee, we determine those matters that were of most significance in the audit of the annual 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

The following reporting is performed in compliance with the Medical Schemes Act of South Africa and not in terms of the ISAs.

Non-compliance with the Medical Schemes Act

As required by the Council for Medical Schemes, we report that for financial year 2022, 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

As required by the Council for Medical Schemes' Circular 38 of 2018 Audit Tenure, we report that Deloitte has been the auditor of TFG Medical Aid Scheme for six years.

The engagement partner below has been responsible for the audit for three years.

DocuSigned by:

FB3D3DBCFFDF425...

Deloitte & Touche
Registered Auditors

Per: MZ Bardien
Partner

6 June 2023

TFG MEDICAL AID SCHEME

STATEMENT OF FINANCIAL POSITION

at 31 December 2022

	Notes	2022 R	2021 R
ASSETS			
<i>Non-current assets</i>			
Fair value through profit or loss investment	2	227,330,304	193,332,601
<i>Current assets</i>			
Fair value through profit or loss investment	3	10,061,612	-
Trade and other receivables	4	773,364	800,467
Cash and cash equivalents	5	43,160,840	58,314,121
Total assets		281,326,120	252,447,189
FUNDS AND LIABILITIES			
<i>Members' funds</i>			
Accumulated funds		271,521,639	243,955,740
<i>Current liabilities</i>			
Outstanding risk claims provision	6	5,297,403	5,900,000
Trade and other payables	7	4,507,078	2,591,449
Total funds and liabilities		281,326,120	252,447,189

TFG MEDICAL AID SCHEME

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2022

	Notes	2022 R	2021 R
Risk contribution income	8	175,086,735	164,867,875
Relevant healthcare expenditure		(151,726,005)	(144,384,644)
Net risk claims incurred		(147,881,342)	(140,715,269)
Risk claims incurred	9	(147,934,892)	(140,973,755)
Third party claims recoveries		53,550	258,486
Managed care: management services fees	10	(4,325,167)	(4,153,793)
Net income from risk transfer arrangement	11	480,504	484,418
Risk transfer fees		(2,160,298)	(2,006,971)
Recoveries from risk transfer arrangement		2,640,802	2,491,389
Gross healthcare results		23,360,730	20,483,231
Administration expenses	12	(10,086,817)	(9,690,917)
Other operating expenses	13	(2,417,944)	(1,687,246)
Net impairment losses on healthcare receivables	14	(218,240)	(177,042)
Net healthcare results		10,637,729	8,928,026
Other income		16,928,170	33,632,540
Investment income	15	16,924,208	33,631,555
Sundry income	16	3,962	985
Net surplus for the year		27,565,899	42,560,566
Other comprehensive income		-	-
Total comprehensive income for the year		27,565,899	42,560,566

TFG MEDICAL AID SCHEME

STATEMENT OF CHANGES IN FUNDS AND RESERVES

for the year ended 31 December 2022

	Accumulated funds	Members' funds
	R	R
Balance at 1 January 2021	201,395,174	201,395,174
Total comprehensive income for the year	42,560,566	42,560,566
Balance at 31 December 2021	<u>243,955,740</u>	<u>243,955,740</u>
Total comprehensive income for the year	27,565,899	27,565,899
Balance at 31 December 2022	<u>271,521,639</u>	<u>271,521,639</u>

TFG MEDICAL AID SCHEME

STATEMENT OF CASH FLOWS
for the year ended 31 December 2022

	Notes	2022 R	2021 R
Cash flows from operating activities			
Cash receipts from members and providers		175,020,783	165,564,735
Cash receipts from members – contributions		174,913,527	165,179,449
Cash receipts from members and providers – other		107,256	385,286
Cash paid to providers, employees and members		(163,664,261)	(154,899,258)
Cash paid to providers and members – claims		(151,434,244)	(142,972,984)
Cash paid to providers and employees – non-healthcare expenditure		(12,230,017)	(11,926,274)
Cash generated from operations		11,356,522	10,665,477
Interest income		4,570,344	3,732,175
Dividends		4,272,255	2,341,798
Net cash flows from operating activities		20,199,121	16,739,450
Cash flows from investing activities			
Acquisitions of investments		(36,040,326)	(52,056,140)
Proceeds on disposals of investments		687,924	20,613,269
Net cash flows from investing activities		(35,352,402)	(31,442,871)
Net decrease in cash and cash equivalents		(15,153,281)	(14,703,421)
Cash and cash equivalents at the beginning of the year		58,314,121	73,017,543
Cash and cash equivalents at the end of the year	5	43,160,840	58,314,121

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022

GENERAL INFORMATION

TFG Medical Aid Scheme is a not-for-profit restricted Scheme registered under the Medical Schemes Act of South Africa.

The Scheme offers the insurance of hospital, chronic illness and day-to-day benefits and is administered by Discovery Health (Pty) Ltd, a wholly-owned subsidiary of Discovery Holdings Limited, listed in the insurance sector of the JSE Limited.

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements have been consistently applied in the current and prior year and are set out below.

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Medical Schemes Act of South Africa (the Act). The financial statements are prepared on the going concern principle using the historical cost basis, except where indicated otherwise below.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out those areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the Scheme's financial statements (Note 22).

These financial statements are presented in Rands, which is the Scheme's functional currency. Rounding of all amounts are to the nearest Rand.

New standards, amendments and interpretations effective in 2022 and relevant to the Scheme.

No new standards, amendments and interpretations were effective for 2022 that were relevant to the Scheme.

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

Executive summary and impact	Effective date
<p>IFRS 17 - Insurance contracts - 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>In accordance with the transition requirements outlined in IFRS 17, management will apply IFRS 17 retrospectively, meaning that the 2023 financial statements will be presented as if IFRS 17 has always applied. The date of initial application of IFRS 17 will therefore be 1 January 2022, being the start of the comparative period.</p> <p>To date, the following IFRS 17 assessments has been concluded:</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.</p>	1 January 2023

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

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

Executive summary and impact	Effective date
<p>Level of aggregation - The Board of Trustees have concluded that the insurance risk is the same for the Scheme as a whole in that it is exposed to the risk that members will seek healthcare services. All benefit options are managed the same financially and operationally. The Scheme has grouped all contracts as one portfolio.</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.</p> <p>Due to the fact that the Scheme has the practical ability to reassess the risks of the policyholder and reprice the contributions per policy on an annual basis, the contract boundary for insurance contracts is estimated to be 12 months.</p> <p>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>Measurement- The Premium Allocation Approach (PAA) is an optional simplified measurement model in IFRS 17 that is available for insurance contracts that meet the eligibility criteria.</p> <p>The Scheme elected to apply the PAA measurement model due to the fact that the coverage period under each of the insurance contracts issued is considered to be one year.</p> <p>On initial recognition of each group of contracts, the carrying amount of the liability for remaining coverage is measured at premiums received on initial recognition. The Scheme may elect to recognise insurance acquisition cash flows as expenses when they are</p> <p>Subsequently, the carrying amount of the liability for remaining coverage is increased by any further contributions received and decreased by the amount recognised as insurance revenue for services provided. The Scheme expects that the time between providing each part of the services and the related premium due date will be no more than a year. The Scheme is not required to adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of the financial risk if, at initial recognition, the Scheme expects that the time between providing each part of the services and the related premium due date is no more than a year.</p> <p>The Scheme will recognise the liability for incurred claims of a group of contracts at the amount of the fulfilment cash flows relating to incurred claims.</p>	<p>1 January 2023</p>

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

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

Executive summary and impact	Effective date
<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.</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 any budgeted deficits (onerous contracts) for the respective years. The 2021 budgeted deficit unwinds in 2021 while 2022 budgeted for a surplus. The original budgets, with IFRS 17 adjustments, will be the starting point in calculating the onerous contract loss.</p> <p>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 the estimated claims. 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>

1.2 Financial instruments

The Scheme classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through Other Comprehensive Income or through profit or loss), and
- Those to be measured at amortised cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or Other Comprehensive Income. For investments in equity instruments that are not held for trading, this will depend on whether the Scheme has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Scheme reclassifies debt investments when and only when its business model for managing those assets changes.

The Scheme has grouped the financial instruments in the following categories:

- Trade and other receivables;
- Cash and cash equivalents;
- Trade and other payables; and
- Fair value through profit or loss investments.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or Other Comprehensive Income. For investments in equity instruments that are not held for trading, this will depend on whether the Scheme has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Scheme reclassifies debt investments when and only when its business model for managing those assets changes.

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

1.2 Financial instruments (continued)

Financial assets

Recognition and Derecognition

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

The Scheme categories its investments as "Fair value through profit or loss".

Classification

IFRS 9 contains three major categories relating to the classification of debt instruments.

- Measured at amortised cost;
- Measured at fair value through other comprehensive income (FVOCI); and
- Measured at fair value through profit or loss (FVTPL)

(a) Amortised Cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

1. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
2. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Fair value through other comprehensive income (FVOCI)

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

1. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
2. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(c.) Fair value through profit or loss (FVTPL)

Financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

Initial and Subsequent Measurement

Fair value measurement

The Scheme measures its investments in financial instruments, such as equity instruments, debentures, other interest bearing investments and derivatives, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Scheme. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Financial assets held at amortised cost

Trade and other receivables are initially measured at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest method.

Interest income is recognised less any expected credit impairment losses which are recognised as part of credit impairment charges.

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

TFG MEDICAL AID SCHEME

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

1.2 Financial instruments (continued)

Investments held at fair value through profit or loss

Financial assets carried at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the profit or loss. Gains or losses arising from changes in the fair value, dividend and interest returns are presented in profit or loss within the period in which they arise.

Cash and cash equivalents

In the statement of cash flow, cash and cash equivalents comprise:

- Money market accounts;
- Money on call and short notice deposits; and
- Current accounts.

Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. Cash and cash equivalents have an insignificant risk of changes in fair value.

Impairment

The Scheme recognises a loss allowance for expected credit losses on Trade and other receivables. The expected credit loss model requires the Scheme to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In determining impairment of Insurance Receivables, the incurred loss model adopted under IFRS 4: Insurance Contracts has been assessed and is reasonable and appropriate to determine impairment of Insurance Receivables and this model will continued to be applied and the expected credit loss model not adopted to determine impairment of Insurance Receivables.

The Scheme classifies its investments as Fair value through profit or loss. Impairment in investments instruments are therefor recognised in profit or loss as and when it occurs.

Offsetting financial instruments

Where a current 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.

Derecognition of financial assets and liabilities

The Scheme derecognises a financial asset when the contractual rights to the asset expire, where there is a transfer of the contractual rights that comprise the asset, or the Scheme retains the contractual rights of the asset but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Where the Scheme retains substantially all the risks and benefits of ownership of the financial asset, the Scheme continues to recognise the financial asset.

The Scheme derecognises a financial liability when the contractual obligations are discharged or expire.

Financial liabilities

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity. Financial liabilities include trade and other payables. The Scheme is not permitted to borrow, in terms of Section 35(6)(c) of the Act. The Scheme therefore has no long-term financial liabilities.

Trade and other payables

Trade and other payables are measured initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. The Scheme's trade and other payables consist of insurance and other liabilities.

Insurance payables

Insurance payables are measured initially at fair value (which approximates cost) and subsequently measured at amortised cost using the effective interest method.

TFG MEDICAL AID SCHEME

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

1.2 Financial instruments (continued)

Provisions

The Scheme recognises provisions when:

- It has a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate of the amount of the obligation can be made.

Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

Outstanding risk claims provision

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

Claims handling expenses are not separately accounted for as this service is provided by the Administrator and a fixed fee is paid for the full administration service including claims handling. No provision for claims handling expenses is required as the Scheme has no further liability to the Administrator at year end.

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

1.3 Member insurance contracts

Contracts under which the Scheme accepts significant insurance risk from another party (the member and respective registered dependents) by agreeing to compensate the member or another beneficiary if a specified uncertain future event (the insured event) adversely affects the member or other beneficiary are classified as insurance contracts.

The contracts issued compensate the Scheme's members for healthcare expenses incurred and are detailed in note 20.

1.4 Risk contribution income

Risk contributions on member insurance contracts are accounted for monthly when their collection in terms of the insurance contract is reasonably assured. Risk contributions are earned from the date of attachment of insurance risk, over the indemnity period on a straight-line basis and recognised as income.

1.5 Risk claims incurred

Gross claims incurred comprise of 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 (net of recoveries from members for co-payments, recoveries from third parties (e.g. motor vehicle accident and forensic recoveries and discounts received from service providers) comprise:

- Risk claims submitted and accrued for services rendered during the year;
- Payments under provider contracts (managed care) for services rendered to members;
- Over or under provision relating to prior year claims accruals; and
- Risk claims incurred but not yet reported.

1.6 Liability adequacy test

At the reporting date, liability adequacy tests are performed to ensure the adequacy of the member insurance contract liability.

Liabilities for insurance contracts are tested for adequacy by discounting current estimates of all future cash flows and comparing this amount to the carrying amount of the liabilities net of any related assets. Where a shortfall is identified, an additional provision is made and charged to profit or loss.

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

1.7 Risk transfer arrangements

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

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

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

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

1.8 Managed care: management services fees

Managed care: management services fees comprise amounts paid or payable to a third party for managing the utilisation, costs and quality of health care services to the members of the Scheme. Managed care: management services fees are expensed as incurred.

1.9 Investment income

Investment income comprises dividends, interest income from cash and cash equivalents and fair value through profit or loss investments as well as realised and unrealised gains on fair value through profit or loss investments.

Interest income is recognised on the effective interest method, taking account of the principal amount and the effective rate over the period to maturity, when it is determined that such income will accrue to the Scheme. Dividend income from investments is recognised when the right to receive payment is established. Realised and unrealised gains on fair value through profit or loss investment are recognised in profit or loss.

1.10 Unallocated funds

Unallocated funds arise on the receipt of unidentified deposits in favour of the Scheme.

Unallocated funds older than three years have legally prescribed and are written back and included under other income in profit or loss.

1.11 Income tax

In terms of Section 10(1)(d) of the Income Tax Act, No 58 of 1962, as amended, receipts and accruals of a benefit fund are exempt from income tax. A medical scheme is included in the definition of a benefit fund and consequently the Scheme is exempt from income tax.

1.12 Allocation of income and expenditure to benefit options

The following items are directly allocated to benefit options:

- Risk contribution income;
- Risk claims incurred;
- Administration fees; and
- Managed care: management services.

The remaining items are allocated based on the average number of members per benefit option.

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

	2022 R	2021 R
2. FAIR VALUE THROUGH PROFIT OR LOSS INVESTMENTS		
<i>Non-current</i>		
Fair value at the beginning of the year	193,332,601	133,747,937
Additions	20,000,000	48,000,000
Disposals	-	(20,000,000)
Interest	1,706,459	1,714,342
Dividends	4,272,255	2,341,798
Management fees	(687,924)	(613,269)
Realised and unrealised gains/(losses)	8,706,913	28,141,793
Fair value at the end of the year	227,330,304	193,332,601
The investment represents:		
Investments in Linked Life Policies	227,330,304	193,332,601
	227,330,304	193,332,601
Fair value through profit or loss investments are classified as non-current assets, unless they are expected to be realised within twelve months of the reporting date or unless they need to be sold to raise operating capital.		
3. FAIR VALUE THROUGH PROFIT OR LOSS INVESTMENTS		
<i>Current</i>		
Core Income Fund Collective Investment Scheme	10,061,612	-
	10,061,612	-
4. TRADE AND OTHER RECEIVABLES		
Insurance receivables		
Contributions outstanding	495,334	475,306
Recoveries from members and suppliers	89,365	160,362
Amount due	637,547	555,364
Impairment losses	(548,182)	(395,002)
Total receivables arising from insurance contracts	584,699	635,668
Loans and receivables		
Interest receivable	151,257	144,682
Sundry accounts receivable	37,408	20,117
Total receivables arising from loans and receivables	188,665	164,799
Total trade and other receivables	773,364	800,467

At 31 December the carrying amounts of loans and receivables approximate their fair values due to the short term maturities of these assets. Interest is not charged on overdue balances. The estimated future cash flow receipts have not been discounted as the effect would be immaterial.

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

	2022 R	2021 R
5. CASH AND CASH EQUIVALENTS		
Current accounts	2,473,800	2,379,773
Money Market Collective Investment Scheme	40,687,040	55,934,349
Total	43,160,840	58,314,121

The weighted average effective interest rate on short-term bank deposits was 4.85% (2021: 3.29%) and on the Money Market Collective Investment Scheme was 5.87% (2021: 4.23%).

At 31 December the carrying amounts of cash and cash equivalents approximate their fair values due to the short term maturities of these assets.

6. OUTSTANDING RISK CLAIMS PROVISION

Outstanding risk claims provision - not covered by risk transfer arrangements	5,297,403	5,900,000
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Analysis of movement in outstanding risk claims

Balance at beginning of year	5,900,000	3,700,000
Payments in respect of prior year	(5,260,845)	(3,782,159)
Over/(under) provision in respect of prior year	639,155	(82,159)
Adjustment for the current year	4,658,248	5,982,159
Balance at end of year	5,297,403	5,900,000

The Scheme's rules, in terms of the Act, provide that risk claims may only be paid if the Scheme is notified of the risk claim and documentation is submitted within 4 months following the month in which the service was rendered. The provision is determined by actuaries and is estimated using a range of statistical methods.

The outstanding risk claims provision is an estimate of the proportion of the risk claims liability incurred in the current financial year that is expected to be reported and only paid after the reporting date. The cost of outstanding risk claims is estimated as the difference between the risk management facility's estimate of risk claims incurred in 2022 and the actual risk claims reported and paid in 2022, for services provided in 2022.

The risk claims incurred by service date estimates are based on the Scheme's actual demographic structure and past claims. Due to differences in claiming patterns, risk claims are grouped into in-hospital, chronic and out-of-hospital claim categories, and the risk claims incurred are assessed separately for each category. Results from the assessment are regularly reconciled with actual paid risk claims and adjustments made where necessary to ensure that these results remain accurate.

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

6. OUTSTANDING RISK CLAIMS PROVISION (continued)

Process used to determine the assumptions

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

This is done via a sophisticated multi-simulation actuarial model which incorporates updated demographic and risk claims data. The outstanding risk claims provision is calculated as the difference between the risk claims projected for the period less the risk claims paid up to the end of that period. This process is done on a monthly basis and regularly reconciled with the actual experience.

Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding risk claims provision are the expected claims ratios for the most recent benefit years for the in-hospital, chronic and out-of-hospital categories of claims. These are used for assessing the outstanding risk claims provisions for the 2022 and 2021 benefit years.

The assumptions used in estimating the risk claims incurred for the Scheme are as follows:

Membership

The actual demographics of the Scheme were used, incorporating all membership movements for the period January to December. Membership is analysed on a beneficiary level by option, age, gender, area, type of dependant and chronic status of dependant.

Reasonability checks

This estimation was tested against estimations produced by the following calculations:

- Actual risk claims paid in 2022 for 2021;
- Traditional "chain ladder" methods, using risk claims development patterns derived from 2021 and 2022 as well as an analysis of the development patterns of December 2021 in isolation (i.e adjustments for seasonality); and
- An analysis of risk claims already paid in 2023 for 2022.

Refer to note 20 for an analysis of the impact of changes in assumptions and sensitivities to changes in key variables.

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

	2022 R	2021 R
7. TRADE AND OTHER PAYABLES		
Insurance liabilities		
Reported claims not yet paid	2,054,372	1,101,412
Balance at the beginning of the year	1,101,412	1,589,734
Total claims for the year	147,934,893	140,973,756
Claims paid for the year	(146,981,933)	(141,462,078)
Total liabilities arising from insurance contracts	2,054,372	1,101,412
Other liabilities		
Related party balance	1,170,193	1,162,263
Discovery Health (Pty) Ltd	1,170,193	1,162,263
Audit fee accrual	310,263	260,697
Other payables	922,130	3,208
Unallocated deposits	50,120	63,869
Total financial liabilities	2,452,706	1,490,037
Total trade and other payables	4,507,078	2,591,449
At 31 December the carrying amounts of other liabilities approximate their fair values due to the short-term maturities of these liabilities.		
8. RISK CONTRIBUTION INCOME		
Risk contribution income	175,086,735	164,867,875
Risk contribution income per statement of comprehensive income	175,086,735	164,867,875
9. RISK CLAIMS INCURRED		
Current year claims per registered rules	143,276,645	134,991,597
Movement in outstanding risk claims provision	4,658,248	5,982,159
(Over)/under provision in respect of prior year (Note 6)	(639,155)	82,159
Balance at the end of the year	5,297,403	5,900,000
	147,934,893	140,973,756
Risk claims incurred	147,934,893	140,973,756
10. MANAGED CARE: MANAGEMENT SERVICES FEES		
Disease management	1,383,827	1,329,261
Hospital pre-authorisation	1,341,254	1,287,366
Network management	1,167,569	1,121,356
Drug utilisation management	432,517	415,810
	4,325,167	4,153,793
11. NET INCOME FROM RISK TRANSFER ARRANGEMENT		
Risk transfer fees	2,160,298	2,006,971
Recoveries received	(2,640,802)	(2,491,389)
	(480,504)	(484,418)

The Scheme has Risk Transfer Agreements with Dental Risk Company and Isoleso for the provision of dental and optical benefits to the TFG Health Plan beneficiaries.

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

	2022	2021
	R	R
12. ADMINISTRATION EXPENSES		
Accredited services		
Member record management	965,671	927,793
Contribution management	848,540	815,333
Claims management	1,067,737	1,025,815
Financial management	34,650	33,434
Information management and data control	1,731,730	1,663,721
Customer services	4,718,757	4,533,345
Other services		
Internal audit services	143,495	137,915
Forensic investigations and recoveries	179,274	172,109
Governance and compliance	28,624	27,355
Additional services		
Quality Management and Monitoring Services	134,832	129,557
Advanced Data Analytics	112,611	108,281
Digital Service Offering	41,429	39,893
Enhanced Service Offering	22,974	22,036
Enterprise risk management services	22,974	22,036
Legal Services	6,779	6,459
Product Innovation	26,740	25,835
	10,086,817	9,690,917
13. OTHER OPERATING EXPENSES		
Actuarial consulting fees	448,224	456,964
AGM cost	56,258	57,086
Association fees	62,032	55,676
Audit committee fees	61,000	68,034
Audit fees	311,569	312,244
Bank charges	78,927	85,494
Conferences and seminars	28,984	-
Council for Medical Schemes fees	153,071	133,250
Debt collecting fees	424	-
Fidelity guarantee and professional indemnity insurance	37,000	34,500
Investment consulting fees	345,000	-
Legal fees	416,356	-
Medical emergency call centre fees	15,831	15,210
Marketing expenses	253,460	341,395
Sundries	9,366	4,393
Trustee fees (Note 13.1) *	140,442	123,000
	2,417,944	1,687,246

* Trustee fees in the 2021 financial year were reported as R191 034 and included fees paid to an audit committee member to the amount of R68 034. The audit committee fees are now reflected in a separate line.

TFG MEDICAL AID SCHEME**NOTES TO THE FINANCIAL STATEMENTS (continued)**

for the year ended 31 December 2022

TFG MEDICAL AID SCHEME**NOTES TO THE FINANCIAL STATEMENTS (continued)**

for the year ended 31 December 2022

13. OTHER OPERATING EXPENSES (continued)

	2022	2021
	R	R
13.1 Trustee fees		
Mr M Wilson		
- Base fee	63,600	60,000
- Attendance fee	59,100	55,500
- Re-imburement	1,992	-
Total Mr M Wilson	124,692	115,500
Mr P Barnard		
- Attendance fee	15,750	7,500
	<u>140,442</u>	<u>123,000</u>

14. NET IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES**Insurance receivables**

Members' and service providers' portions that are not recoverable

Movement in impairment allowance	218,240	177,042
Written off	153,179	108,580
	65,061	68,462
	<u>218,240</u>	<u>177,042</u>

15. INVESTMENT INCOME

Interest earned	112,203	84,916
Interest on cash and cash equivalents	112,203	84,916
Income from investments	16,812,005	33,546,639
Interest income	4,464,716	3,647,259
Dividend income	4,272,255	2,341,798
Realised (losses)/gains	(3,115,155)	539,940
Unrealised gains	11,875,450	27,601,853
Investment manager fees	(685,261)	(584,211)
	<u>16,924,208</u>	<u>33,631,555</u>

16. SUNDRY INCOME

Prescribed credits written off	3,962	985
	<u>3,962</u>	<u>985</u>

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

17. SURPLUS/(DEFICIT) FROM OPERATIONS PER BENEFIT OPTION

2022	TFG Health	TFG Health Plus	
In-hospital costs covered	100% Scheme rate at Network provider	100% Scheme rate	
Chronic conditions	PMBs unlimited, subject to formulary for CDL conditions. Network provider.	PMBs unlimited, subject to formulary, non-PMB's limited and subject to Scheme rules	
Primary care	Unlimited cover for medical appropriate consultations at Network provider	100% Scheme rate	
Overall annual limit	No limit	No limit	
	TFG Health R	TFG Health Plus R	TOTAL R
Risk contribution income	53,766,968	121,319,767	175,086,735
Relevant healthcare expenditure	(45,808,643)	(105,917,362)	(151,726,005)
Net risk claims incurred	(44,001,178)	(103,933,714)	(147,934,892)
Third party claim recoveries	28,763	24,787	53,550
Managed care: management services fees	(2,316,732)	(2,008,435)	(4,325,167)
Net income on risk transfer arrangement	480,504	-	480,504
Gross healthcare results	7,958,325	15,402,405	23,360,730
Administration expenses	(5,402,897)	(4,683,920)	(10,086,817)
Other operating expenses	(1,300,754)	(1,117,190)	(2,417,944)
Net impairment losses on healthcare receivables	(118,175)	(100,065)	(218,240)
Net healthcare results	1,136,499	9,501,230	10,637,729
Investment and other income	9,137,933	7,790,237	16,928,170
Net surplus for the year	10,274,432	17,291,467	27,565,899

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

17. SURPLUS FROM OPERATIONS PER BENEFIT OPTION

2021	TFG Health	TFG Health Plus	
In-hospital costs covered	100% Scheme rate at Network provider	100% Scheme rate	
Chronic conditions	PMBs unlimited, subject to formulary for CDL conditions. Network provider.	PMBs unlimited, subject to formulary, non-PMB's limited and subject to Scheme rules	
Primary care	Unlimited cover for medical appropriate consultations at Network provider	100% Scheme rate	
Overall annual limit	No limit	No limit	
	TFG Health R	TFG Health Plus R	TOTAL R
Risk contribution income	45,164,232	119,703,643	164,867,875
Relevant healthcare expenditure	(46,922,642)	(97,462,002)	(144,384,644)
Net risk claims incurred	(45,413,013)	(95,560,742)	(140,973,755)
Third party claim recoveries	104,225	154,261	258,486
Managed care: management services fees	(2,098,272)	(2,055,521)	(4,153,793)
Net income on risk transfer arrangement	484,418	-	484,418
Gross healthcare results	(1,758,410)	22,241,641	20,483,231
Administration expenses	(4,895,326)	(4,795,591)	(9,690,917)
Other operating expenses	(854,824)	(832,422)	(1,687,246)
Net impairment gains on healthcare receivables	(89,183)	(87,859)	(177,042)
Net healthcare results	(7,597,743)	16,525,769	8,928,026
Investment and other income	16,998,888	16,633,652	33,632,540
Net surplus for the year	9,401,145	33,159,421	42,560,566

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

18. EVENTS AFTER THE REPORTING DATE

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

19. RELATED PARTY TRANSACTIONS

Four trustees are appointed by the employer and four elected by the members of the Scheme.

Parties with significant influence over the Scheme:

Administrator and managed care organisation

Discovery Health (Pty) Ltd has significant influence over the Scheme as Discovery Health (Pty) Ltd participates in the Scheme's financial and operating policy decisions, but does not control the Scheme. Discovery Health (Pty) Ltd provides administration services. These transactions are done at arm's length.

Key management personnel:

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

Close family members include close family members of the Board of Trustees and Principal Officer, and are also related parties.

Transactions with related parties

The following provides the total transaction amounts, which have been entered into with related parties for the relevant financial year.

Key management personnel (Board of Trustees and Principal Officer) and their close family members

	2022	2021
	R	R
Statement of comprehensive income		
Risk contributions received *	795,282	684,181
Risk claims incurred	445,479	2,044,143
Trustee remuneration	140,442	123,000

* Risk contributions received for the 2021 financial period was updated in order to reflect the correct amount. It was previously reported as R484 401.

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

19. RELATED PARTY TRANSACTIONS (continued)

The terms and conditions of the related party transactions were as follows:

Transaction	Nature of transactions and terms and conditions thereof
Risk contributions received	This constitutes the risk contributions paid by the related parties as members of the Scheme, in their individual capacity. All risk contributions were on the same terms as those applicable to other members.
Risk claims incurred	This constitutes amounts claimed by the related parties, in their individual capacity as members of the Scheme. All risk claims were paid out in terms of the rules of the Scheme, as applicable to other members.

Transactions with entities that have significant influence over the Scheme

	2022 R	2021 R
Discovery Health (Pty) Ltd - Administrator		
Statement of comprehensive income		
Administration fees paid	10,086,817	9,690,917
Medical emergency call centre fees (Note 13)	15,831	15,210
Discovery Health (Pty) Ltd - managed care organisation		
Statement of comprehensive income		
Managed care fees paid (Note 10)	4,325,167	4,153,793
Statement of financial position		
Balance due to Discovery Health (Pty) Ltd at year end (Note 7)	1,170,193	1,162,263

The terms and conditions of the transactions with entities with significant influence over the Scheme were as follows:

Administration and managed care management service agreements

The administration and managed care agreements are entered into in terms of the Rules of the Scheme and in accordance with instructions given by the Board of Trustees. The agreement is automatically renewed each year, unless notification of termination is received or following the cancellation of the Administrator's accreditation or the issue of a lawful directive to this effect by the Council for Medical Schemes in terms of the Act. The Scheme and the Administrator are entitled to terminate the agreement by giving notice in writing of not less than 90 days and not more than 180 days. Outstanding balances bear no interest and are due within 7 days. Annual administration fee increases are negotiated by the Board of Trustees in accordance with the relevant terms of these agreements.

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

20. INSURANCE RISK MANAGEMENT REPORT

Nature and extent of risks arising from insurance contracts

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

Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Scheme mitigates covered members and their dependants against the risk of loss arising as a result of the occurrence of a health event (i.e. an event relating to the health of the Scheme's beneficiary). As such, the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim.

The Board of Trustees has developed and approved a documented policy for the acceptance and management of insurance risk to which the scheme is exposed. Reference has also been made to the requirements of the Medical Schemes Act in compiling the insurance risk-management policy. The policy is reviewed annually and the benefit options provided to members are structured to fall within the acceptable insurance risk levels specified. The Board of Trustees also determines the policy for entering into alternative risk transfer arrangements and/or commercial reinsurance contracts, where appropriate. The annual business plan is structured around the insurance risk-management policy.

The Scheme manages its insurance risk through benefit limits and sub-limits, application of clinical protocols, approval procedures for transactions that exceed set limits, pricing guidelines, pre-authorisation and case management, service provider profiling, and the regular monitoring of emerging issues.

The Scheme uses several methods to assess and monitor 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 insurance contracts. The principal risk is that the frequency and/or severity of claims is greater than expected.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio.

Factors that aggravate insurance risk include changes in membership distribution and major unanticipated demographic movements, adverse experience regarding the cost of prescribed minimum benefits and unusually adverse experience due to seasonal patterns.

Concentration of insurance risk

The following table summarises the concentration of insurance risk, with reference to the number of beneficiaries per option, per age group.

Age grouping (in years)	2022		2021	
	TFG Health	TFG Health Plus	TFG Health	TFG Health Plus
< 26	1,352	1,051	1,346	1,209
26 – 35	694	179	739	269
36 – 50	1,034	934	993	1,086
51 - 64	272	617	275	605
> 65	129	403	130	401
Total	3,481	3,184	3,483	3,570

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

20. INSURANCE RISK MANAGEMENT REPORT (continued)

Claims incurred for 2022 service year

Age grouping (in years)	Hospital R	Out of hospital R	Chronic R	Total R
< 26	16,648,098	11,761,684	466,158	28,875,940
26 – 35	9,162,426	5,834,192	475,683	15,472,301
36 – 50	19,901,807	16,947,153	2,439,810	39,288,770
51 - 64	13,474,412	12,515,651	2,061,302	28,051,365
> 65	18,745,136	11,555,362	1,921,732	32,222,230
Total	77,931,879	58,614,042	7,364,685	143,910,606

Claims incurred for 2021 service year

Age grouping (in years)	Hospital R	Out of hospital R	Chronic R	Total R
< 26	11,631,791	11,027,753	561,266	23,220,810
26 – 35	10,052,977	7,741,214	650,643	18,444,834
36 – 50	20,977,350	18,238,009	2,493,984	41,709,343
51 - 64	14,061,804	12,057,256	1,574,744	27,693,804
> 65	14,075,747	8,467,422	1,913,127	24,456,296
Total	70,799,669	57,531,654	7,193,764	135,525,087

Claims development

Claims development tables are not presented since the uncertainty regarding the amount and timing of claim payments is typically resolved within one year and the majority of cases within four months. At year end, a provision is made for those claims outstanding that are not yet reported at that date.

Outstanding risk claims provision

There are some sources of uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for risk claims made under insurance contracts.

Process used to determine the assumptions

Refer to note 6.

Changes in assumptions and sensitivities to changes in key variables

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. For each sensitivity illustrated, all other assumptions have been left unchanged.

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 may be required in the future.

An analysis of the sensitivities 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 claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

The impact on the liability and reported income caused by changes in relevant risk variables:

	Increase in liability	Increase in liability 2022 R	Increase in liability 2021 R
In-hospital claims incurred	1% increase in claims costs	779,319	707,997
Chronic claims incurred	1% increase in claims costs	73,647	71,938
Out-of-hospital risk claims incurred	1% increase in claims costs	586,140	575,317

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

21. FINANCIAL RISK MANAGEMENT REPORT

Overview

The Scheme is exposed to financial risk through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Scheme's financial performance.

The Board of Trustees has overall responsibility for the establishment and oversight of the Scheme's risk management framework.

The Scheme manages these risks through various risk management processes. These processes have been developed to ensure that the long-term investment return on assets supporting the insurance liabilities are sufficient to fund members' reasonable benefit expectations.

The Audit Committee has been established by the Board of Trustees to assist in the implementation and monitoring of these risk management processes.

Credit risk

Credit risk is the risk of financial loss to the Scheme, if a counterparty to an insurance contract or a financial instrument fails to meet its contractual obligations.

The Scheme's principal financial assets exposed to credit risk include cash and cash equivalents, fair value through profit or loss investments and trade and other receivables. The Scheme's credit risk is primarily attributable to its insurance and other receivables.

Insurance and other receivables

Trade and other receivables comprises insurance receivables and loans and receivables. The main components of insurance receivables are in respect of:

- Receivables for contributions due from members; and
- Receivables for amounts recoverable from service providers and members in respect of claims debt.

The Scheme manages credit risk by:

- Actively pursuing all contributions not received after 3 days of becoming due, as required by S26(7) of the Act;
- Monthly reconciliations between the Administrator and the Employer are discussed for possible suspensions of memberships;
- Ageing and pursuing arrear accounts on a monthly basis.

The Scheme establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Details of the process to estimate the impairment allowance are included in note 1.2.

Investments

Investment transactions are limited to high credit quality financial institutions.

Annexure B of the Regulations to the Act prescribes the credit limits per institution, which reduces the individual risk per institution. The utilisation of these credit limits are regularly monitored.

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Cash and cash equivalents

The Scheme has no significant concentration of credit risk. Cash transactions are limited to financial institutions with a high credit rating. The Scheme has a policy of limiting the amount of credit exposure to any one financial institution.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Notes	Carrying amount	
		2022 R	2021 R
Fair value through profit or loss investments - non current	2	227,330,304	193,332,601
Fair value through profit or loss investments current	3	10,061,612	-
Trade and other receivables	4	773,364	800,467
Insurance receivables		584,699	635,668
Loans and receivables		188,665	164,799
Cash and equivalents	5	43,160,840	58,314,121
		281,326,120	252,447,188

Trade and other receivables

The main components of insurance receivables are contribution receivables and member and service provider claims receivables.

Contribution receivables are collected by means of cash payments or debit orders.

The maximum credit exposure to claims receivables was:

Recoveries from members and suppliers	89,365	160,362
	89,365	160,362

TFG MEDICAL AID SCHEME

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

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Impairment losses

The ageing of insurance receivables at year end was:

	Gross 2022 R	Impairment 2022 R	Gross 2021 R	Impairment 2021 R
Not past due	528,480	-	522,565	-
Past due 3 - 30 days	29,838	-	4,580	-
Past due 31 - 60 days	26,382	-	108,523	-
Past due 61 days +	548,182	548,182	395,002	395,002
Total	1,132,882	548,182	1,030,670	395,002

The movement in the impairment allowance, for each class of insurance asset, during the year was as follows:

	Trade and other receivables			
	<i>Insurance receivables</i>		<i>Loans and receivables</i>	Total
	Contribution debtors	Member and service provider claims debtors		
	R	R	R	R
Balance as at 1 January 2021	-	286,422	-	286,422
Amounts utilised during the year	-	(68,462)	-	(68,462)
Increase in allowance for impairment	-	177,043	-	177,043
Balance as at 31 December 2021	-	395,002	-	395,002
Balance as at 1 January 2022	-	395,002	-	395,002
Amounts utilised during the year	-	(65,061)	-	(65,061)
Increase in allowance for impairment	-	218,241	-	218,241
Balance as at 31 December 2022	-	548,182	-	548,182

Cash and cash equivalents

The table below shows the exposure limit and balance of cash or deposits held at five major counterparties at year end.

Counterparty	2022		2021	
	Exposure limit	Balance	Exposure limit	Balance
	R	R	R	R
ABSA	98,193,464	16,814,373	88,076,353	8,184,658
Rand Merchant Bank	98,193,464	14,286,899	88,076,353	12,032,359
Nedbank	98,193,464	19,806,251	88,076,353	13,846,073
Investec	98,193,464	782,867	88,076,353	14,379,653
Standard Bank	98,193,464	17,227,723	88,076,353	15,526,461

No exposure limits were exceeded during the reporting period and the Trustees do not expect any losses from non-performance of these counterparties.

Exposure limites were calculated as 35% of investable assets (2021: 35%).

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Credit quality of financial assets and insurance receivables

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

	2022 R	2021 R
<i>Insurance receivables</i>		
Counterparties without external credit rating:		
Contribution debtors	495,334	475,306
Recoveries from members and suppliers	637,547	555,364

Contribution debtors

On analysing the credit quality of contribution debtors, the Scheme collected 99% of these amounts in January 2023 (2021: 99%). This indicates a high credit quality relating to these debtors.

Active member claim debtors

These debtors are members of the Scheme and therefore are expected to have similar credit quality to the contribution debtors. This does not imply that all amounts were collected in January.

Provider claim debtors

These debtors are the healthcare providers of the Scheme. The amounts due to the Scheme are offset against future payments to be made to these providers.

Cash and cash equivalents

Counterparties with external credit ratings:

Ba2 (Moody's)

68,918,113

63,969,204

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Liquidity risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The availability of funding through liquid cash positions with various institutions ensures that the Scheme has the ability to fund day-to-day operations. With exception of the matter raised in note 22, the Scheme has complied with the requirements regarding the nature and categories of assets as prescribed by Section 35 and Regulation 30 of the Act.

A maturity analysis for financial liabilities, excluding insurance liabilities is provided below:

As at 31 December 2022	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year
	R	R	R
Outstanding risk claims provision (Note 5)	3,833,647	794,610	669,146
Trade and other payables (Note 6)	2,452,706	-	-

As at 31 December 2021	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year
	R	R	R
Outstanding claims provision (Note 5)	2,701,473	885,000	2,313,527
Trade and other payables (Note 6)	1,490,037	-	-

The contractual cash flows above equate the carrying amount of the assets and liabilities above.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices will affect the Scheme's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Currency risk

All of the Scheme's benefits are Rand-denominated and therefore the Scheme does not have significant currency risk.

Price risk

The Scheme is exposed to equity security price risk because of investments held by the Scheme. The Scheme is not exposed to commodity risk. To manage its price risk arising from investments in equity securities, the Scheme diversifies its portfolio. Diversification of the Scheme's investments are done by the asset managers through the investments held in different investment portfolios.

	2022	2021
Equity exposure (Rand value)	158,810,290	132,561,110

A change of 5% in the equity market will have an effect of R7,940,515 (2021: R6,628,056) on the Scheme's reserves.

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Interest rate risk

The Scheme is exposed to interest rate risk as it places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate investments within the Scheme's investment portfolio.

The Scheme's insurance liabilities are settled within one year and the Scheme does not discount insurance liabilities. Consequently, insurance liabilities do not expose the Scheme to interest rate risk.

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

	Up to 1 month R	1 - 3 months R	3 - 12 months R	Total R
As at 31 December 2022				
Cash and cash equivalents	43,160,840	-	-	43,160,840
Total	43,160,840	-	-	43,160,840
	Up to 1 month R	1 - 3 months R	3 - 12 months R	Total R
As at 31 December 2021				
Cash and cash equivalents	58,314,121	-	-	58,314,121
Total	58,314,121	-	-	58,314,121

The table below summarises the effective interest rate for monetary financial instruments:

	2022 %	2021 %
Cash and cash equivalents	4.85%	3.29%

Sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) accumulated funds and surplus or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Surplus or deficit		Accumulated funds	
	100bp Increase R	100bp Decrease R	100bp Increase R	100bp Decrease R
31 December 2022				
Cash and cash equivalents	431,608	(431,608)	431,608	(431,608)
Sensitivity (net)	431,608	(431,608)	431,608	(431,608)
31 December 2021				
Cash and cash equivalents	583,141	(583,141)	583,141	(583,141)
Sensitivity (net)	583,141	(583,141)	583,141	(583,141)

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Legal risk

Legal risk is the risk that the Scheme will be exposed to in respect of contractual obligations which have not been provided for. At 31 December 2022 the Scheme did not consider there to be any significant concentration of legal risk that had not been provided for.

Capital management

The Scheme is subject to the capital requirement imposed by Regulation 29(2) to the Act which requires a minimum solvency ratio of accumulated funds expressed as a percentage of gross contributions to be 25%.

The Scheme's objectives when managing capital are to maintain the capital requirements of the Act and to safeguard the Scheme's ability to continue as a going concern in order to provide benefits for its stakeholders.

The calculation of the regulatory capital requirement is set out below.

	2022	2021
	R	R
Total members' funds per statement of financial position	271,521,639	243,955,740
Less: cumulative unrealised net gains on remeasurement to fair value of investments	(54,198,954)	(42,323,504)
Accumulated funds per Regulation 29	<u>217,322,685</u>	<u>201,632,236</u>
Gross risk contributions	<u>175,086,735</u>	<u>164,867,875</u>
Solvency margin = Accumulated funds/annualised gross contribution income x 100%	124.12%	122.30%

The required solvency has been maintained throughout the year.

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Fair value estimation

The carrying value less impairment of loans and other receivables and payables are assumed to approximate their fair values due to their short-term nature.

Continuous monitoring takes place to ensure that appropriate assets are held where the Scheme's liabilities are dependent upon the performance of investments and that a suitable match of assets exists for all liabilities.

Breakdown of investments

The assets of the portfolio must be invested in accordance with Annexure B of the Regulations to the Act.

The investments for the purposes of the financial statements comprise of fair value through profit or loss investments and cash and cash equivalents.

Fair value through profit or loss investments: non-current

Non-current fair value through profit or loss investments comprise the following:

	2022 R	2021 R
Investments in Linked Life Policies	227,330,304	193,332,601
	227,330,304	193,332,601

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

The Scheme invested in an equity Linked Life Policy through Allan Gray Life Limited, Sanlam Ltd, Prescient Ltd and Old Mutual Ltd. which at year-end amounted to 81% (2021: 77%) of the Scheme's assets. The objective with this investment is to maximise capital growth over a longer term.

Fair value through profit or loss investments: current

Current fair value through profit or loss investments comprise the following:

	2022 R	2021 R
Investment in Core Income Fund	10,061,612	-
	10,061,612	-

The Scheme invested in a Core Income Fund with Nedgroup investments as part of the Taquanta asset manager's portfolio.

Cash and cash equivalents

Cash and cash equivalents are made up of the following year end balances:

	2022 R	2021 R
Current accounts	2,473,800	2,379,773
Money market accounts	40,687,040	55,934,349
Total	43,160,840	58,314,122

TFG MEDICAL AID SCHEME

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

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

The following table compares the fair value and carrying amounts of financial assets and liabilities per class of financial assets and financial liabilities. The carrying amount equates the fair value.

	Financial liabilities at amortised cost	Loans and receivables	Insurance receivables and payables	Fair value through profit or loss investments	Total carrying amount
	R	R	R	R	R
For the year ended 31 December 2022					
Fair value through profit or loss investments	-	-	-	227,330,304	227,330,304
Cash and cash equivalents	-	43,160,840	-	-	43,160,840
Trade and other receivables	-	188,665	584,699	-	773,364
Trade and other payables	(2,452,706)	-	(2,054,372)	-	(4,507,078)
	(2,452,706)	43,349,505	(1,469,673)	227,330,304	266,757,430
For the year ended 31 December 2021					
Fair value through profit or loss investments	-	-	-	193,332,601	193,332,601
Cash and cash equivalents	-	58,314,121	-	-	58,314,121
Trade and other receivables	-	164,799	635,668	-	800,467
Trade and other payables	(1,490,037)	-	(1,101,412)	-	(2,591,449)
	(1,490,037)	58,478,920	(465,744)	193,332,601	249,855,739

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

22. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Scheme makes estimates and assumptions concerning the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Outstanding risk claims provision

The critical estimates and judgements relating to the outstanding claims provision are set out under note 5.

Reported claims not yet paid

Judgements are required in determining the final cash flows associated with discounts received from arrangements with hospitals. The underlying assumptions are reviewed on a quarterly basis.

Impairment of assets

The critical estimates and judgements relating to the impairment of assets are set out under note 1.2.

Valuation of financial instruments

The Scheme measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted in an active market for an identical instrument).
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Scheme's fair value through profit or loss investments are all categorised as Level 1 investments (2021: level 1).

Unconsolidated investment structures

The Scheme has involvement with an investment fund in which it invests but it does not consolidate. The investment fund meets the definition of a structured entity because:

- the voting rights in the fund is not dominant rights in deciding who controls it because they relate to administrative tasks only;
- each fund's activities are restricted by prospectus; and
- the fund has narrow and well-defined objectives to provide investment opportunities.

The fair value through profit or loss investments are disclosed in note 21.

TFG MEDICAL AID SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2022

23. NON-COMPLIANCE MATTERS

23.1 Contributions not received within three days of it becoming due

In terms of Section 26(7) of the Act, all contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due.

There were a small number of instances, during the year, where the Scheme received contributions after three days of becoming due, however, there are no contracts in place agreeing to this arrangement.

Procedures are in place regarding the collection of these contributions.

23.2 Investment in participating employer and medical administrators

In terms of Section 35(8) of the Act, a medical scheme is prohibited from investing any of its assets in an employer who participates in that scheme or any medical scheme administrators.

At 31 December 2022 the Scheme held shares through linked life policies in The Foschini Group Ltd to the value of R644,845 (2021: R338,941), in Momentum Metropolitan Holdings to the value of R988,041 (2021: R457,092), in Discovery Ltd to the value of R694,280 (2021: R410,997) and in Sanlam Limited to the value of R1,060,140 (2021: R879,891).

Funds in this specific portfolio are structured at the sole discretion of the asset manager in a manner that maximizes returns. Therefore the Scheme does not make inputs into the structuring of the portfolio. The Scheme received exemption from this section of the Act until 30 November 2025 at which stage the Scheme will apply for a further exemption.

23.3 Claims not settled within 30 days

In terms of Section 59(2) and Regulation 6(2) of the Act a medical scheme shall pay a member or supplier of services any benefit owing to that member or supplier within 30 days of receipt of the medical claim.

A limited number of exceptions were noted where settlement took longer than 30 days from receipt. These were limited to more complex claims and management is committed to resolve these matters in a responsible manner and in the best interest of the member and the Scheme.

23.4 Investment in local equities

In terms of Regulation 30 and Annexure B a medical scheme is only allowed to invest up to 40% of investable assets in local equities. As 31 December 2022 the Scheme's equity holding exceeded this limit.

Regulation 30(3A) provides that assets in excess of the minimum specified in Regulation 30 may be allocated according to different percentages if a medical scheme provides the Registrar of Medical Schemes with a certified statement from a suitably qualified person. The Scheme provided such statement to the Registrar of Medical Schemes, and the Scheme is investing within the suggested percentages.

24. COMMITMENTS AND OTHER CONTINGENT LIABILITIES

The Scheme does not have any commitments or contingent liabilities outstanding at 31 December 2022.

25. GOING CONCERN

The Board of Trustees considers the Scheme to be going concern. The Board took the following into consideration in the evaluation of the Scheme's going concern status:

- The reserve ratio at the end of the year was 124.1%.
- Available cash and investments at the end of the year amounted to R280,552,756.
- Actuarial forecasts over a five year period indicated that the Scheme will be a going concern.