

**ENGEN MEDICAL BENEFIT FUND**  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 December 2020**

**ENGEN MEDICAL BENEFIT FUND**  
**(Registration number 1572)**

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**ENGEN MEDICAL BENEFIT FUND**  
**(Registration number 1572)**

**STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES**

The Trustees of Engen Medical Benefit Fund (the Fund) are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position at 31 December 2020, and the statement of comprehensive income, statement of changes in funds and reserves and statement of cash flows for the year then ended and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Medical Schemes Act 131 of 1998 of South Africa (the Act). In addition, the Trustees are responsible for preparing the report of the Board of Trustees and statement of corporate governance by the Board of trustees.

The Trustees consider that in preparing the annual financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

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

The Trustees are responsible for ensuring that accounting records are kept and the accounting records disclose with reasonable accuracy the financial position of the Fund which enables the Trustees to ensure that the annual financial statements comply with the relevant legislation.

Engen Medical Benefit Fund operated in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing the Fund are being controlled.

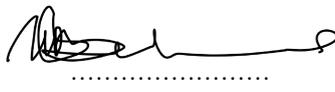
The going concern basis has been adopted in preparing the annual financial statements. The Trustees have no reason to believe that the Fund will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These annual financial statements support the viability of the Fund.

The Fund's external auditor, PricewaterhouseCoopers, are responsible for auditing the annual financial statements in terms of International Standards on Auditing and their report is presented on pages 12 to 15.

The annual financial statements were approved by the Board of Trustees on 21 April 2021 and signed on its behalf:



.....  
 S Moroka-Mosia  
 Chairperson



.....  
 S Abrahams  
 Trustee



.....  
 R Marchant  
 Principal Officer

21 April 2021

**ENGEN MEDICAL BENEFIT FUND**  
**(Registration number 1572)**

**STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES**

The Engen Medical Benefit Fund is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders. The Fund follows principles of corporate governance appropriate to medical schemes. The Trustees are proposed and elected by the members of the Fund or nominated the Employers.

**BOARD OF TRUSTEES**

The Trustees 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 are critical, informed and constructive.

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

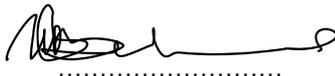
**INTERNAL CONTROL**

The Administrator of the Fund maintains internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the annual 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.



.....  
 S Moroka-Mosia  
 Chairperson



.....  
 S Abrahams  
 Trustee



.....  
 R Marchant  
 Principal Officer

21 April 2021

**ENGEN MEDICAL BENEFIT FUND****REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2020**

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

Registration Number: 1572

**1. MANAGEMENT****1.1 Board of Trustees in office during the year under review****Appointed members**

Mr R Marchant - Chairperson	Employer representative	(Resigned: 12 June 2020)
Ms S Moroka-Mosia - Chairperson	Employer representative	(Chairperson: effective 3 September 2020)
Mr S Chili	Employer representative	(Resigned: 31 December 2020)
Ms D Mokotjo	Employer representative	
Ms N Ngema	Employer representative	
Ms L Shaw	Employer representative	(Appointed: 12 June 2020)

**Elected members**

Mr S Abrahams	Member representative
Ms A Bennetts	Member representative
Dr A Gray	Member representative
Ms G King	Member representative
Mr T Nthabane	Member representative

**Alternate trustee**

Ms B Ndlovu	Alternate trustee
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The Board of Trustees is assisted by:

Dr A Davidson	Medical Advisor
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**1.2 Principal Officer**

Ms L Shaw (until 12 June 2020)

Mr R Marchant (effective 13 June 2020)

Engen Court	P O Box 35
Thibault Square	Cape Town
Cape Town	8000
8001	

**1.3 Registered office address and postal address**

<b>Business address</b>	<b>Postal address</b>
Engen Court	P O Box 35
Thibault Square	Cape Town
Cape Town	8000
8001	

Country of registration and domicile: South Africa

**1.4 Fund Administrator**

Discovery Health (Pty) Ltd	
1 Discovery Place	P O Box 2379
cnr Rivonia and Catherine Street	Rivonia
Sandton	2128
2196	

**ENGEN MEDICAL BENEFIT FUND**

**REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2020**

**1.5 Managed care provider**

Discovery Health (Pty) Ltd	
1 Discovery Place	P O Box 2379
cnr Rivonia and Catherine Street	Rivonia
Sandton	2128
2196	

**1.6 Investment Managers**

Prescient Investment Management (Pty) Ltd	
Prescient House	P O Box 31142
The Terraces	Tokai
Steenberg Boulevard	7966
Steenberg Office Park	
7966	

Prudential Portfolio Managers (South Africa) Life Limited	
Seventh Floor	
Protea Place	P O Box 44813
40 Dreyer Street	Claremont
Claremont	7735
7708	

**1.7 Investment Consultants**

Momentum Consultants and Actuaries	
269 West Avenue	P O Box 7400
Centurion	Centurion
0157	0046

**1.8 Actuary**

Alexander Forbes Health (Pty) Ltd	
40 Dorp Street	PO Box 700
Stellenbosch	Stellenbosch
7599	7600

**1.9 Auditor**

PricewaterhouseCoopers Inc.	
5 Silo Square	P O Box 2799
V&A Waterfront	Cape Town
Cape Town	8000
8002	

## ENGEN MEDICAL BENEFIT FUND

### REPORT OF THE BOARD OF TRUSTEES for the year ended 31 December 2020

#### 2. DESCRIPTION OF FUND

##### 2.1 Terms of registration

The Engen Medical Benefit Fund is a not-for-profit medical scheme registered in terms of the Medical Schemes Act 131 of 1998 of South Africa (the Act), as amended. Membership of the Fund is open to all employees of Engen Petroleum (Pty) Ltd and any other institution to whose employees membership has been extended by the Board of Trustees.

##### 2.2 Benefit options within Engen Medical Benefit Fund

In terms of the Engen Medical Benefit Fund's rules, it offers only one plan with a savings option.

##### 2.3 Medical Savings Account

Ten percent (10%) of total contributions are allocated to members' Medical Savings Accounts to cover their day-to-day medical expenses. Unexpended Medical Savings funds are accumulated for the long-term benefit of the members and interest accrues at an average rate of 5.61% (2019: 7.97%).

The Fund's liability to the members in respect of the Medical Savings Account is reflected as a financial liability in the annual financial statements, repayable in terms of Regulation 10 of the Act.

In terms of the rules of the Fund, the Fund carries the risk.

##### 2.4 Risk transfer arrangement

The Fund has entered into a capitation agreement with ER24 (Pty) Ltd. In terms of this agreement ER24, provides emergency evacuation services from accident scenes or when urgent medical care is needed for all members of the Fund.

#### 3. INVESTMENT STRATEGY OF THE FUND

The Fund's investment objective is to maximise the return on its investments on a long-term basis at an acceptable risk. The investment strategy takes into consideration both constraints imposed by legislation and those imposed by the Board of Trustees. An Investment Committee was established to assist the Board of Trustees in any matters related to investments. The Committee is mandated by the Board of Trustees and some of their duties are to ensure that:

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

The Investment Committee presently comprises of:

Mr N Sithebe	Chairman (Independent)
Mr S Abrahams	Trustee
Mr N Magan	Independent
Ms L Shaw	Trustee
Mr A van Niekerk	Independent
Mr R Marchant	(Principal Officer) in ex-officio capacity

The committee met on four occasions during the year as follows:

- 11 February 2020;
- 26 May 2020;
- 27 August 2020; and
- 29 October 2020

## ENGEN MEDICAL BENEFIT FUND

### REPORT OF THE BOARD OF TRUSTEES for the year ended 31 December 2020

#### 4. MANAGEMENT OF INSURANCE RISK

The primary insurance activity carried out by the Fund assumes the risk of loss from members and their dependants that are directly subject to the risk. The risk relates to the health of the Fund's members. As such, the Fund is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

The Fund manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation, case management and service provider profiling.

The Fund 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 pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims are 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 with established statistical techniques. There are no changes to assumptions used to measure insurance assets and liabilities that have a material effect on the annual financial statements and there are no terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the Fund's cash flows.

#### 5. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

##### 5.1 Operational statistics

	2020	2019
Average number of members during the accounting period	3,444	3,455
Number of members at 31 December	3,419	3,476
Average number of beneficiaries during the accounting period	6,763	6,895
Number of beneficiaries at 31 December	6,702	6,843
Dependant ratio	0.96	0.97
Number of new members	87	263
Number of members leaving	144	196
Average age of beneficiaries for the accounting period	40.55	40.08
Proportion of lives over the age of 65	18.17%	17.59%
Average net contribution per member per month (R)	5,299	5,136
Average net contribution per beneficiary per month (R)	2,699	2,574
Relevant healthcare expenditure as a percentage of net contributions (%)	71.27%	79.49%
Non-healthcare expenses as a percentage of net contributions (%)	5.48%	5.47%
Non-healthcare expenses per beneficiary per month (R)	148	141
Average healthcare management expense per member per month (R)	106	100
Average healthcare management expense per beneficiary per month (R)	54	51
Managed care: management services as a percentage of gross contributions	1.80%	1.76%
Amount paid to administrators (R)	10,191,553	9,710,561
Accumulated funds per member at 31 December (R)	80,181	61,953
Return on investments	3.28%	7.08%
Reserves per beneficiary (R)	40,904	31,470

##### 5.2 Results of operations

The results of the Fund are set out in the annual financial statements and the Trustees believe that no further clarification is required.

## ENGEN MEDICAL BENEFIT FUND

### REPORT OF THE BOARD OF TRUSTEES for the year ended 31 December 2020

#### 5.3 Accumulated funds ratio

	2020 R	2019 R
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per statement of financial position	274,139,082	215,347,657
Less: Unrealised gains on investments **	(4,373,148)	(2,184,937)
Accumulated funds per Regulation 29	<u>269,765,934</u>	<u>213,162,720</u>
Gross contributions	<u>243,305,826</u>	<u>236,559,291</u>
Accumulated funds ratio	<u>110.88%</u>	<u>90.11%</u>

**\*\* Cumulative net gains on re-measurement to fair value are calculated as follows:**

Net cumulative gains opening balance at the beginning of the year	2,184,937	18,851,109
Movement in unrealised gains on re-measurement of financial instruments to fair value included in accumulated funds	2,188,211	(16,666,172)
<b>Cumulative net gain on re-measurement to fair value of investments included in accumulated funds</b>	<u>4,373,148</u>	<u>2,184,937</u>

#### 5.4 Reserve accounts

Movements in the reserves are set out in the statement of changes in funds and reserves. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Fund.

#### 5.5 Outstanding claims

Movements on the outstanding claims provision are set out in note 8 to the annual financial statements.

### 6. ACTUARIAL SERVICES

An actuarial valuation is not required for the purposes of the annual financial statements, however full use of the Fund's actuarial consultants, Alexander Forbes Health (Pty) Ltd, are made in contribution setting and benefit design.

### 7. EVENTS AFTER 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 Fund.

The Fund is in a strong financial position and ready to fund the payments in respect of the COVID-19 vaccination process for all beneficiaries.

### 8. AUDIT COMMITTEE

An Audit Committee was established in accordance with the provisions of the Medical Schemes Act No. 131 of 1998, as amended. The Committee 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 majority of the members are not officers of the Fund or its third party administrator. The Committee met on two occasions during the year as follows:

- 8 April 2020; and
- 10 November 2020.

The Chairperson of the Fund, the financial manager and the external auditors attend all Audit Committee meetings and have unrestricted access to the Chairman of the Committee.

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

**ENGEN MEDICAL BENEFIT FUND****REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2020****8. AUDIT COMMITTEE (continued)**

At 31 December 2020, the Audit Committee comprised of:

Ms S Koen	Independent (Chairperson)
Ms L Prins	Independent
Mr N Sithebe	Independent
Ms N Ngema	Trustee
Mr T Nthabane	Trustee
Ms F Ngcwabe	Independent
Mr R Marchant	Principal Officer (ex Officio)

**9. PROFESSIONAL INDEMNITY/FIDELITY/TRUSTEES AND OFFICERS INSURANCE**

In accordance with the Rules, the Fund has insurance to cover these risks. On 31 December 2020, the total cover was R10 million (2019: R10 million).

**10. BOARD OF TRUSTEES AND COMMITTEE MEETING ATTENDANCE**

The following schedule sets out the Board of Trustees, Audit and Investment Committee meetings attendances:

<u>Trustee / Sub Committee member</u>	<u>Board meetings</u>		<u>Audit Committee meetings</u>		<u>Investment Committee meetings</u>	
	<b>A</b>	<b>B</b>	<b>A</b>	<b>B</b>	<b>A</b>	<b>B</b>
Ms S Moroka-Mosia - Chairperson (effective: 3 September 2020)	4	4	2	1		
Mr S Abrahams	4	4			4	4
Ms A Bennetts	4	3				
Mr S Chili	4	4				
Dr A Gray	4	4				
Ms G King	4	3				
Ms D Mokotjo	4	4				
Ms N Ngema	4	3	2	2		
Ms L Shaw	4	4	2	2	4	3
Mr T Nthabane	4	3	2	1		
Ms S Koen			2	1		
Ms L Prins			2	2		
Mr N Sithebe			2	2	4	4
Mr N Magan					4	4
Ms B Ndlovu (alternate)	4	4				
Ms Ngcwabe			2	2		
Mr A van Niekerk					4	3
Mr R Marchant *	4	4	2	2	4	4

**A** - Total possible number of meetings could have attended

**B** - Actual number of meetings attended

\* Mr Marchant was the Chairperson of the Fund until 12 June 2020 when he was appointed as the Principal Officer. In his capacity as Principal Officer he attended meetings by invitation.

## **ENGEN MEDICAL BENEFIT FUND**

### **REPORT OF THE BOARD OF TRUSTEES for the year ended 31 December 2020**

#### **11. GOING CONCERN**

The Trustees believe the Fund will be a going concern in the foreseeable future due to, but not limited to the following reasons:

- The reserve ratio at the end of the year was 110.88%.
- Available cash and investments at the end of the year amounted to R284,574,959

Beneficiaries of the Fund delayed medical procedures in 2020 as they avoided healthcare facilities in the fear of contracting the COVID-19 virus. The Fund expects this delayed cost together with increased cost due to a second and third waves to increase the claims expenditure in the Fund. This increased cost will not change the Fund's going concern status.

#### **12. NON-COMPLIANCE WITH THE MEDICAL SCHEMES ACT**

##### **12.1 Contravention of section 35(8)(c) of the Medical Schemes Act**

###### **Nature and impact**

The Fund holds investments in Discovery Holdings Ltd, Momentum Metropolitan Holdings Limited and Sanlam Ltd. This is in contravention of section 35(8)(c) of the Act, as the Fund is not allowed to hold shares in the holding company of the Administrator or any other Administrator.

###### **Causes for the failure**

The Fund invested in a pooled fund and does not have control of the investment decisions relating to the underlying assets.

###### **Corrective action**

The Fund applied for exemption from the Council for Medical Schemes in terms of section 35(8) in order to hold these shares.

##### **12.2 Contravention of section 26(7) of the Medical Schemes Act**

###### **Nature and impact**

Section 26(7) of the Act requires that "All subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due". A limited number of exceptions were noted during the year where contributions were received late.

###### **Cause of failure**

Membership changes may cause reconciliation items between the employer and the Fund records. These are typically resolved within one month.

###### **Corrective action**

The Fund continually strives to have all membership changes updated before the following contribution run. Due to the nature of membership movement, and the communication process between the Employer and pension administrators, on the one hand, and the Administrator on the other, this is not always possible.

##### **12.3 Claims not settled within 30 days**

###### **Nature and impact**

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.

###### **Causes for the failure**

A few complex cases also took more than 30 days to be resolved in order to process the claims payment.

###### **Corrective Action**

Management is committed to resolve these matters in a responsible manner and in the best interest of the member and the Fund.

## ENGEN MEDICAL BENEFIT FUND

### REPORT OF THE BOARD OF TRUSTEES for the year ended 31 December 2020

#### 13. COVID-19

The World Health Organization declared COVID-19 a Pandemic on 11 March 2020 and on 15 March 2020 the South African Government declared a National State of Disaster due to the Pandemic.

On 27 March 2020 South Africa went into full lockdown (level five) for a period of 3 weeks. This lockdown level was relaxed to a lockdown level one over time until the second wave of the COVID-19 was detected and declared by the Health Minister on 9 December 2020.

*The COVID-19 Pandemic had the following impact on the Fund:*

Due to the lockdown levels in place and the seriousness of the virus, people avoided healthcare facilities in fear of contracting the virus and for some time only emergency and COVID-19 related services were available. This has caused the claims expenditure for the 2020 year to be much lower than anticipated. The saving on claims expenditure was R42.5m in the 2020 financial year. This saving was considered when the contribution increase for 2021 was calculated. It is expected that members who postpone medical procedures will still have these procedures done, and that the savings achieved in 2020 will be used to pay for these delayed expenses.

The Trustees further expect substantial cost to be incurred during the second and third waves of the virus for testing, treatment and eventually the vaccine. The savings achieved in 2020 will be used to cover some of these costs.

The Fund is in a financially strong position with a reserve ratio of 110.88%. The additional expenses expected for delayed medical procedures and COVID-19 related cost will not negatively impact the Fund's position as a going concern. COVID-19 related expenses for the 2020 financial year are included in the attached financial statements and no further insurance liabilities were raised, as the claims are not incurred yet.

The Pandemic caused uncertain and unprecedented times and the Trustees cautiously managed the Fund's financial affairs in order to ascertain the payment of claims and also assisted members in financial need.

The COVID-19 pandemic also impacted on financial markets world wide, and it also impacted the investment income of the Fund. No impairment of investments are required, but investment income for the year performed poorly against the Fund's initial expectation.

#### *Current status*

During 2020 and up to 11 April 2021 there were 2,257 COVID-19 tests conducted and 432 beneficiaries tested positive.

The amount that the Fund paid towards COVID-19 related claims in 2020 and up to 11 April amounted to R19.1m.

It is with sadness that the Fund note the passing of 22 of the Fund's beneficiaries and the Trustees send their heartfelt condolences to the family and friends of those that lost their lives.

*To the Members of Engen Medical Benefit Fund*

**Report on the financial statements**

*Opinion*

We have audited the financial statements of Engen Medical Benefit Fund (the Scheme), set out on pages 16 to 47, which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, the statement of changes in funds and reserves and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Scheme as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

*Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

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).

*Key Audit Matters*

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

Key audit matter	How our audit addressed the key audit matter
<p><i>Outstanding claims provision</i></p> <p>The outstanding claims provision of R9,320,000 at year-end as described in note 8 to the financial statements, is a provision recognised for the estimated cost of healthcare benefits that have been incurred prior to year-end but that were only reported to the Scheme after year-end.</p> <p>The outstanding claims provision is calculated by the Scheme’s actuaries and administrator which is</p>	<p>We obtained an understanding from the Scheme’s actuaries and administrator regarding the process to calculate the outstanding risk claims provision, which included the design and implementation of controls within the process. The actuarial method applied by the Scheme is one that is generally applied within the medical scheme industry.</p>

*PricewaterhouseCoopers, 5 Silo Square, V&A Waterfront, Cape Town, 8001, P O Box 2799, Cape Town, 8000  
T: +27 (0) 21 529 2000, F: +27 (0) 21 814 2000, www.pwc.co.za*

reviewed by management and the Audit Committee and recommended to the Board of Trustees for approval.

The Scheme’s actuaries and administrator use an actuarial method, based on the Scheme’s actual claim development patterns throughout the year, to project the year-end provision. This method applies the Basic Chain Ladder (“BCL”) method.

The claim service date, processing date and amount are used to derive claim development patterns. These historical patterns are then used to estimate the outstanding claims provision.

We identified this to be a matter of most significance to the audit because of the uncertainty in the projected claims pattern. A change in the projected claims pattern can cause a material change to the amount of the provision.

We obtained the actual claims data from the member administration system covering the year ended 31 December 2020. The actual claims data includes the impact of COVID-19 and therefore the impact has been taken into account in the claims patterns in the outstanding claims provision.

For a sample of actual claims received by the Scheme in the 31 December 2020 financial year, we tested the accuracy of the service and process dates. No material inconsistencies were noted.

We substantively tested a sample of claims against the relevant Scheme rules and assessed completeness of the claims data.

The claims data that was included in the Scheme’s actuarial method was agreed to the above actual claims data with no material inconsistencies noted.

To assess the reasonableness of the Scheme actuaries’ estimation process, we compared the actual claim results in the current year to the prior year provision. Based on our assessment, the estimation process was considered reasonable.

We have evaluated management’s experts by assessing their competence, capability, and objectivity and noted no aspects requiring further consideration. We also obtained the outstanding claims provision report from the Scheme’s actuaries and assessed whether the inputs, assumptions, methodology and findings per the report were consistent with our testing above. Based on the results of our assessment we accepted the inputs, assumptions, methodology and findings as reasonable.

We obtained the actual claims run-off report up to 31 March 2021 from the Scheme’s administrator. For a sample of claims from the report, we tested the occurrence and accuracy of the claims as well as the accuracy of the related service dates and we identified no material inconsistencies.

We enquired from the Scheme’s administrator whether there were delays in processing claims at year-end that could possibly impact the claims run-off pattern subsequent to year-end. The Scheme administrator confirmed that there were no such delays.

We obtained the treatment pre-authorisations approved prior to year-end from the Scheme administrator and selected a sample to assess if any of the selected claims related to a health

	insurance event before year-end were included in the actual claims run-off report up to 31 March 2021. No material inconsistencies were noted.
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*Other Information*

The Scheme’s trustees are responsible for the other information. The other information comprises the information included in the “Engen Medical Benefit Fund Annual Financial Statements for the year ended 31 December 2020”. The other information does not include the financial statements and our auditor’s report thereon.

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

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

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

*Responsibilities of the Scheme’s Trustees for the Financial Statements*

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

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

*Auditor’s Responsibilities for the Audit of the Financial Statements*

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

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

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

accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

### **Report on Other Legal and Regulatory Requirements**

#### *Non-compliance with the Medical Schemes Act of South Africa*

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

#### *Audit Tenure*

As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that PricewaterhouseCoopers Inc. has been the auditor of Engen Medical Benefit Fund for four years. The engagement partner, Nicolette Jacobs, has been responsible for Engen Medical Benefit Fund's audit for four years.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers Inc.' in a cursive script.

PricewaterhouseCoopers Inc.  
Director: NA Jacobs  
Registered Auditor  
Cape Town, South Africa  
21 April 2021

**ENGEN MEDICAL BENEFIT FUND**

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

	Notes	2020 R	2019 R
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets at fair value through profit or loss	2	181,854,014	151,329,627
<b>Current assets</b>			
Financial assets at fair value through profit or loss	2.1	127,879,798	94,938,140
Trade and other receivables	3	88,545,535	68,414,413
Cash and cash equivalents	4	2,072,152	734,218
Investment of Medical Savings Account monies	5	14,175,410	5,844,774
		23,086,701	19,944,735
<b>Total assets</b>		<u>309,733,812</u>	<u>246,267,767</u>
<b>FUNDS AND LIABILITIES</b>			
<b>Members' funds</b>			
Accumulated funds		274,139,082	215,347,657
		<u>274,139,082</u>	<u>215,347,657</u>
<b>Current liabilities</b>			
Medical Savings Account liability	6	35,594,730	30,920,110
Trade and other payables	7	24,119,788	20,636,553
Outstanding claims provision	8	2,154,942	3,783,557
		9,320,000	6,500,000
<b>Total funds and liabilities</b>		<u>309,733,812</u>	<u>246,267,767</u>

**ENGEN MEDICAL BENEFIT FUND**

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

	Notes	2020 R	2019 R
<b>Risk contribution income</b>	9	219,009,758	212,955,014
<b>Relevant healthcare expenditure</b>		(156,089,801)	(169,274,432)
Net claims incurred		(155,905,469)	(169,034,667)
Risk claims incurred	10	(151,928,055)	(165,643,116)
Managed care: management services	11	(4,367,749)	(4,161,610)
Third party claim recoveries		390,335	770,059
Net expense on risk transfer arrangement	12	(184,332)	(239,765)
Risk transfer arrangement fee		(1,153,686)	(1,102,344)
Recoveries received on risk transfer arrangement		969,354	862,579
<b>Gross healthcare result</b>		62,919,957	43,680,582
Administration expenditure	13	(11,877,139)	(11,530,683)
Net impairment losses on healthcare receivables	14	(134,134)	(108,713)
<b>Net healthcare result</b>		50,908,684	32,041,186
<b>Other income</b>		10,087,045	17,380,925
Investment income	15	8,647,671	16,040,910
Interest on Medical Savings Account trust monies		1,439,374	1,343,301
Sundry income	16	-	(3,286)
<b>Other expenditure</b>		(2,204,304)	(1,902,975)
Asset management fees	17	(764,930)	(559,674)
Interest paid on Medical Savings Account trust monies		(1,439,374)	(1,343,301)
<b>Net surplus for the year</b>		<b>58,791,425</b>	<b>47,519,136</b>
<b>Total comprehensive income for the year</b>		<b>58,791,425</b>	<b>47,519,136</b>

**ENGEN MEDICAL BENEFIT FUND****STATEMENT OF CHANGES IN FUNDS AND RESERVES  
for the year ended 31 December 2020**

	<b>Accumulated Funds</b>	<b>Total Members Funds</b>
	<b>R</b>	<b>R</b>
<b>Balance as at 1 January 2019</b>	167,828,521	167,828,521
Net surplus for the year	47,519,136	47,519,136
<b>Balance as at 31 December 2019</b>	<u>215,347,657</u>	<u>215,347,657</u>
Net surplus for the year	58,791,425	58,791,425
<b>Balance as at 31 December 2020</b>	<u>274,139,082</u>	<u>274,139,082</u>

**ENGEN MEDICAL BENEFIT FUND**

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

	Notes	2020 R	2019 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net surplus for the year		58,791,425	47,519,136
Adjustments for:			
Investment income		(12,497,932)	4,830,190
Interest on Medical Savings Account trust monies		(1,439,374)	(1,343,301)
Interest paid on Medical Savings Account trust monies		1,439,374	1,343,301
Impairment losses		134,134	108,713
Cost incurred in managing investments		764,930	559,674
Net realised and unrealised losses/(gains)		3,850,261	(20,871,100)
Cash flows from operations before working capital changes		<u>51,042,818</u>	<u>32,146,613</u>
Working capital changes:			
(Increase)/decrease in accounts receivable		(1,472,067)	93,311
Decrease in accounts payable		(1,628,615)	(2,146,434)
Increase in Medical Savings Account liability		3,483,235	2,173,567
Increase/(decrease) in outstanding claims provision		2,820,000	(2,456,605)
		<u>3,202,553</u>	<u>(2,336,161)</u>
<b>Cash flows from operating activities</b>		<b>54,245,371</b>	<b>29,810,452</b>
Interest received		<u>4,708,353</u>	<u>4,559,798</u>
<b>Net cash flows from operating activities</b>		<b><u>58,953,724</u></b>	<b><u>34,370,250</u></b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Withdrawal from fair value through profit or loss investments		-	61,467,847
Purchase of fair value through profit or loss investments		(47,481,122)	(100,240,891)
<b>Net cash flows used in investing activities</b>		<b><u>(47,481,122)</u></b>	<b><u>(38,773,044)</u></b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>11,472,602</b>	<b>(4,402,794)</b>
Cash and cash equivalents at the beginning of the year		25,789,509	30,192,303
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	4 & 5	<b><u>37,262,111</u></b>	<b><u>25,789,509</u></b>
Fund		<u>14,175,410</u>	<u>5,844,774</u>
Medical Savings Account trust monies		<u>23,086,701</u>	<u>19,944,735</u>

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2020

#### GENERAL INFORMATION

Engen Medical Benefit Fund is a not-for-profit restricted access medical scheme registered under the Medical Schemes Act 131 of 1998, as amended.

The Fund 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.

#### Basis of preparation

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the Medical Schemes Act 131 of 1998, as amended (the Act). The financial statements are prepared on the going concern principle using the historical cost basis except where stated otherwise.

These annual financial statements are presented in Rands, which is the Fund's functional currency and all amounts are rounded to the nearest Rand.

#### 1. ACCOUNTING POLICIES

##### 1.1 New standards, amendments and interpretations effective in 2020 and relevant to the Fund:

No new standards, amendments and interpretations were effective and relevant to the Fund in 2020.

##### New standards, amendments and interpretations not yet effective and relevant to the Fund:

	Effective date
<p><b>IFRS 17 Insurance Contracts</b> - IFRS 17 supersedes IFRS 4 Insurance Contracts and aims to increase comparability and transparency about profitability. The new standard introduces a new comprehensive model ("general model") for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts, such as:</p> <ul style="list-style-type: none"> <li>• Reinsurance contracts held;</li> <li>• Direct participating contracts; and</li> <li>• Investment contracts with discretionary participation features.</li> </ul> <p>Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or OCI.</p> <p>The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on the Fund's financial statements. The Fund is in the process of determining the impact of IFRS 17 and will provide more detailed disclosure on the impact in future financial statements. The standard is effective for annual periods beginning on or after 1 January 2023. Early adoption is permitted.</p>	1 January 2023

##### 1.2 Financial Instruments

###### The Fund 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 Fund's business model for managing the financial assets and the contractual terms of the cash flows.

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2020

#### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

##### 1.2 Financial Instruments (continued)

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

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

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

The classification depends on the purpose for which the financial instruments are acquired. Management determines the classification of financial instruments at initial recognition. All purchases and sales of financial instruments are recognised on the trade date, which is the date on which the Fund commits to purchase the financial asset or assume financial liability. All financial assets are recognised initially at fair value plus directly attributable transaction costs.

##### *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 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*

##### **Trade and other receivables**

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.

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2020

#### 1. PRINCIPAL ACCOUNTING POLICIES (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**

- Money at call and short notice; and
- Balances with banks.

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 a maturity of less than three months and insignificant risk of changes in fair value.

##### *Impairment*

The Fund recognises a loss allowance for expected credit losses on Trade and other receivables. The expected credit loss model requires the Fund 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; this model will continue to be applied and the expected credit loss model not adopted to determine impairment of Insurance Receivables.

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

##### **Derecognition**

###### *Financial assets*

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Fund retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass through arrangement; or
- The Fund has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the rights and rewards of the asset, or (b) has neither transferred nor retained substantially all the rights and rewards of the asset, but has transferred control of the asset.

###### *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

##### **Financial liabilities**

The Fund is not permitted to borrow, in terms of Section 35 (6)(c) of the Medical Schemes Act 131 of 1998, as amended. The Fund therefore has no long-term 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.

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2020

#### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

The Fund has grouped the financial liabilities in the following categories:

- Trade and other payables
- Insurance payables
- Medical Savings Account liability
- Outstanding risk claims provision

##### *Trade and other payables*

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

##### *Insurance payables*

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

##### *Medical Savings Account liability*

The Medical Savings Account, which is managed by the Fund on behalf of its members, represents Medical Savings contributions (which are a deposit component of the insurance contracts), and accrued interest thereon, net of any Medical Savings claims paid on behalf of members in terms of the Fund's registered Rules.

The deposit component of the insurance contracts has been unbundled, since the Fund can measure the deposit component separately. The insurance component is recognised in accordance with IFRS 4.

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

Advances on Medical Savings contributions are funded from the Fund's reserves and the risk of impairment is carried by the Fund.

##### *Provisions*

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

##### *Outstanding claims provision*

The outstanding claims provision is a provision made for the estimated cost of healthcare benefits that have occurred before the year-end, but that have not been reported to the Fund by that date. This provision is determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in 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.

#### 1.3 Insurance contracts

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

#### 1.4 Contributions

Gross contributions are brought into account on the accrual basis. Net contributions represent gross contributions after the deduction of Medical Savings Account contributions. The earned portion of net contributions received, is recognised as revenue. Net contributions are earned from the date of attachment of risk, over the indemnity period on a straight-line basis. Net contributions are shown before the deduction of any costs.

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2020

#### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

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

Net claims incurred comprise:

- claims submitted and accrued for services rendered during the year, net of recoveries from savings plan accounts; and
- claims for services rendered during the previous year not included in the outstanding claims provision for that year and Medical savings Accounts.

#### 1.5 Risk transfer arrangements

Risk transfer arrangements are contractual arrangements whereby a third party undertakes to indemnify the Fund against all or part of the loss that the Fund may incur as a result of carrying on the business of a medical fund. Risk transfer arrangements do not reduce the Fund's primary obligation to the member and their dependants, but the arrangement may decrease the loss the Fund may suffer as a result of the carrying on of the business of a medical fund.

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

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

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 Fund may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Fund will receive under the risk transfer arrangement. The claims incurred liability under risk transfer arrangements and the equivalent receivable are also presented on the statement of financial position on a gross basis.

#### 1.6 Liabilities and related assets under liability adequacy test

At reporting date, liability adequacy tests are performed to ensure the adequacy of the member insurance contract liabilities. Where a shortfall is identified, an additional provision is made and the Fund recognises the deficiency in profit and loss for the year.

#### 1.7 Managed care: management services expenses

These expenses represent internal expenditure and the amounts paid or payable to the third party administrators, related parties and other third parties for managing the utilisation, costs and quality of healthcare services to the Fund. Managed care: management services expenses are expensed as incurred.

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2020

#### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

##### 1.8 Investment income

Interest income is recognised on a yield-to-maturity basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Fund.

Income from collective investment schemes and insurance policies is recognised when entitlement to receive income is established. Dividend income from investments is recognised when the right to receive payment is established.

##### 1.9 Unclaimed benefits

Unclaimed benefits are written back to profit and loss in the statement of comprehensive income after a period of three years.

##### 1.10 Taxation

The Fund meets the definition of a benefit fund as defined by section 1 of the Income Tax Act, and therefore the receipts and accruals of the Fund are exempt from tax in terms of section 10(1)(d) of the Act.

##### 1.11 Reimbursements from the Road Accident Fund

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

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

##### 1.12 Critical accounting judgements and areas of key sources of estimation uncertainty

In the process of applying the Fund's accounting policies, management has made the following judgement that has the most significant effect on the amounts recognised in the annual financial

The assumption was made that the claims incurred but not received (outstanding claims provision) as at year-end will follow the same trend as the previous years. The prior year's experience was built into the program to calculate this provision. Although the assumption is considered critical, post statement of financial position settlements against the provision have been monitored to ensure reasonability of the original provision. Refer to note 8 for disclosure relating to the outstanding claims provision.

**ENGEN MEDICAL BENEFIT FUND****NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020**

	<b>2020</b>	<b>2019</b>
	<b>R</b>	<b>R</b>
<b>2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
<b>Non-current assets</b>		
Opening balance	151,329,627	125,408,188
Withdrawals	-	(61,467,847)
Contribution	27,350,000	76,467,849
Capitalised interest	4,592,019	4,826,686
Capitalised dividends	1,009,346	2,449,498
Capitalised net realised (losses)/gains	(3,850,261)	20,871,099
Cost incurred in managing investments	(764,928)	(559,673)
Unrealised losses/(gains)	2,188,211	(16,666,173)
Fair value at the end of the year	<u>181,854,014</u>	<u>151,329,627</u>

The investments included above represent investments which are administered by Prescient Investment Management (Pty) Ltd and Prudential Investment Managers. They have no fixed date of maturity. The fair values of these investments are based on market values at 31 December 2020. A register of investments is available for inspection at the registered office of the Fund.

The look-through fair value investments comprise:

- Bills & bonds	100,976,356	66,407,494
- Listed property	8,370,750	8,772,466
- Preference & ordinary shares	47,845,360	42,085,707
- Cash and call account	24,661,548	34,063,960
	<u>181,854,014</u>	<u>151,329,627</u>

The fair value through profit or loss investments have been classified as non-current as management have no intention to utilise any funds of the investments within the next 12 months, except those classified in 2.1

**2.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS****Current assets**

Money market	88,545,535	68,414,413
Fair value at the end of the year	<u>88,545,535</u>	<u>68,414,413</u>

The weighted effective interest rate on the money market account at 31 December 2020 was 5.61% (2019: 7.98%).

**ENGEN MEDICAL BENEFIT FUND****NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020**

<b>3. TRADE AND OTHER RECEIVABLES</b>	<b>2020</b>	<b>2019</b>
	<b>R</b>	<b>R</b>
<b>Insurance receivables</b>		
Contributions outstanding	1,476,145	-
Amounts owing from suppliers and members	414,224	546,323
	<u>1,890,369</u>	<u>546,323</u>
Less: Provision for impairment losses	(293,593)	(416,409)
	1,596,776	129,914
<b>Other receivables</b>		
Accrued interest	437,259	573,914
Forensic recoveries	38,117	30,390
	<u>475,376</u>	<u>604,304</u>
	<u><u>2,072,152</u></u>	<u><u>734,218</u></u>

**4. CASH AND CASH EQUIVALENTS**

Current accounts	14,175,410	5,844,774
	<u>14,175,410</u>	<u>5,844,774</u>

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

**5. INVESTMENT OF MEDICAL SAVINGS ACCOUNT MONIES MANAGED BY  
THE FUND ON BEHALF OF ITS MEMBERS**

Money market	23,086,701	19,944,735
	<u>23,086,701</u>	<u>19,944,735</u>

The average interest rate on Medical Savings Account monies was 5.61% (2019: 7.97%).

**ENGEN MEDICAL BENEFIT FUND**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020**

**6. MEDICAL SAVINGS ACCOUNT MONIES MANAGED BY THE FUND  
ON BEHALF OF ITS MEMBERS**

	<b>2020</b>	<b>2019</b>
	<b>R</b>	<b>R</b>
Balance on Medical Savings Account liability at the beginning of the year	20,636,553	18,462,986
Less: Advances on Medical Savings Accounts at the beginning of the year	-	-
Balance on Medical Savings Account liability at the beginning of the year	<u>20,636,553</u>	<u>18,462,986</u>
Add: Medical Savings Account contribution received/receivable for the year	24,296,068	23,604,277
Interest earned on Medical Savings Account monies invested	1,439,374	1,343,301
Transfer of debit balances	-	871,408
Less: Claims paid on behalf of members	(21,582,922)	(22,799,484)
Refunds on death or resignations	(669,285)	(845,935)
	<u>24,119,788</u>	<u>20,636,553</u>
Add: Advances on Medical savings Accounts at the end of the year	-	-
Medical Savings Account balance due to members at the end of the year	<u><u>24,119,788</u></u>	<u><u>20,636,553</u></u>

In accordance with the rules of the Fund, the Medical Savings Account is underwritten by the Fund. The Fund placed all Medical Savings Account liability funds in a separate bank account and the interest earned on this account is allocated to members.

The Medical Savings Account liability contains a demand feature in terms of Regulation 10 of the Medical Scheme Act that any credit balance on a member's Medical Savings Account must be taken as a cash benefit when the member terminates his or her membership of the Fund and then enrolls in another medical scheme without a Medical Savings Account or does not enrol in another medical scheme.

It is estimated that claims to be paid out of members' Medical Savings Accounts in respect of claims incurred in 2020, but not recorded, will amount to R212,891 (2019: R125,078) (refer to note 8). Advances on Medical Savings Accounts are included in accounts receivable (refer to note 3).

The mismatch between the Medical Savings Account liability and investment relates to timing differences. These differences cleared after year-end.

**7. TRADE AND OTHER PAYABLES**

	<b>2020</b>	<b>2019</b>
	<b>R</b>	<b>R</b>
<b>Insurance payables</b>	457,250	2,162,381
Contributions received in advance	-	56,727
Reported claims not paid	<u>457,250</u>	<u>2,105,654</u>
<b>Other payables</b>	1,697,692	1,621,176
Accrued expenses	<u>1,688,278</u>	<u>1,579,419</u>
Sundry payables and provisions	9,414	41,757
	<u><u>2,154,942</u></u>	<u><u>3,783,557</u></u>
<b>Reported claims not paid</b>		
Balance at the beginning of the year	2,105,654	3,840,401
Movement for the year	<u>(1,648,404)</u>	<u>(1,734,747)</u>
Balance at the end of the year	<u><u>457,250</u></u>	<u><u>2,105,654</u></u>

The carrying amounts of trade and other payables approximate their fair values due to the short-term maturities of these liabilities.

**ENGEN MEDICAL BENEFIT FUND**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020**

**8. OUTSTANDING RISK CLAIMS PROVISION**

	<b>2020</b>	<b>2019</b>
	<b>R</b>	<b>R</b>
Provision for outstanding risk claims	<u>9,320,000</u>	<u>6,500,000</u>
<i>Analysis of movements in outstanding risk claims</i>		
Balance at the beginning of the year	6,500,000	8,800,000
Payments in respect of the prior year	<u>(5,180,910)</u>	<u>(7,628,513)</u>
Over provision in respect of the prior year	1,319,090	1,171,487
Adjustment for the current year	<u>8,000,910</u>	<u>5,328,513</u>
Balance at the end of the year	<u>9,320,000</u>	<u>6,500,000</u>
<i>Analysis of outstanding risk claims provision</i>		
Estimated gross claims	9,532,891	6,625,078
Less: Estimated recoveries from Medical Savings Accounts	<u>(212,891)</u>	<u>(125,078)</u>
Balance at end of year	<u>9,320,000</u>	<u>6,500,000</u>

**Assumptions and sensitivities**

*Process used to determine the assumptions*

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

Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from managed care: management services and historical evidence of the size of similar claims. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by category of claims due to differences in the underlying insurance contract, claim complexity, the volume of claims, the individual severity of claims, determining the occurrence date of a claim and reporting lags.

**ENGEN MEDICAL BENEFIT FUND****NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020****8. OUTSTANDING CLAIMS PROVISION (continued)****Assumptions and sensitivities (continued)***Process used to determine the assumptions (continued)*

The cost of outstanding claims is estimated using statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each benefit year based upon observed development of earlier years and expected loss ratios. Run-off triangles are used in situations where it takes time after the treatment date until the full extent of the claims to be paid is known. It is assumed that payments will emerge in a similar way in each service month. The proportional increase in the known cumulative payments from one development month to the next can then be used to calculate payments for future development months.

The method used is consistent with prior years and considers categories of claims and observed historical claims development. To the extent that these methods use historical claims development information they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development/recording of claims paid and incurred (such as changes in claim reserving procedures);
- economic, legal, political and social trends (resulting in different than expected levels of inflation and/or minimum medical benefits to be provided);
- changes in composition of membership and their dependents; or
- random fluctuations, including the impact of large losses.

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the expected percentages of claims settled after each of the first four months of the claims run-off period, before the claims turn stale.

The percentages used as assumptions are listed in the table below. The table also outlines the sensitivity of these percentages, and the impact on the Fund's liabilities for a change in assumption.

- The actual demographics of the Fund were used including all membership movements for the year;
- The effect of ageing of the population on the utilisation of health services are automatically incorporated;
- Utilisation escalation has been provided for the impact of HIV/AIDS; and
- The impact of COVID-19 was incorporated in the run-off percentages.

	<b>2020</b>	<b>2019</b>
The assumed percentages of claims outstanding at the end of the year:	<b>%</b>	<b>%</b>
- December	40%	36%
- November	10%	11%
- October	5%	4%
- September	4%	2%
- August and prior	1%	1%
	<b>2020</b>	<b>2019</b>
	<b>R</b>	<b>R</b>
Changes in the assumptions used will have the following impact:		
Effect of a 1% change in assumptions	885,720	833,679
Effect of a 2% change in assumptions	1,793,590	1,687,142
Effect of a 3% change in assumptions	2,724,748	2,561,921

The Fund believes that the provision for claims not reported at year-end 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 the claims arise.

**ENGEN MEDICAL BENEFIT FUND****NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020****9. RISK CONTRIBUTION INCOME**

	<b>2020</b>	<b>2019</b>
	<b>R</b>	<b>R</b>
Gross contributions	243,305,826	236,559,291
Less: Medical Savings Account contributions *	(24,296,068)	(23,604,277)
	<u>219,009,758</u>	<u>212,955,014</u>

\* The Medical Savings Account contributions are received by the Fund in terms of Regulation 10(1) and the Fund's registered rules and held on behalf of its members. Refer to note 6 for more detail on how these monies were utilised.

**10. RISK CLAIMS INCURRED****Claims incurred excluding claims incurred in respect of risk transfer arrangement**

Current year claims per registered Rules	164,540,713	182,251,508
Movement in outstanding risk claims provision	8,000,910	5,328,513
- Over provision in the prior year	(1,319,090)	(1,171,487)
- Provision for the current year	9,320,000	6,500,000
	<u>172,541,623</u>	<u>187,580,021</u>
Less:	21,582,922	22,799,484
- Medical Savings Account claims paid*	<u>21,582,922</u>	<u>22,799,484</u>
	<u>150,958,701</u>	<u>164,780,537</u>

\* Claims are paid on behalf of the members from Medical Savings Account in terms of Regulation 10(3) and the Fund's registered benefits. Refer to note 6 for a breakdown of the movement in these balances.

**Claims incurred in respect of risk transfer arrangement**

Current year claims in respect of risk transfer arrangement	<u>969,354</u>	<u>862,579</u>
	<u>151,928,055</u>	<u>165,643,116</u>

**11. MANAGED CARE: MANAGEMENT SERVICES**

Disease risk management	1,397,680	1,331,715
Medicine risk management	436,775	416,161
Hospital management programme	1,310,324	1,248,483
Managed Care Network Services and Risk management	1,222,970	1,165,251
	<u>4,367,749</u>	<u>4,161,610</u>

**ENGEN MEDICAL BENEFIT FUND****NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020**

<b>12. NET EXPENSE ON RISK TRANSFER ARRANGEMENT</b>	<b>2020</b>	<b>2019</b>
	<b>R</b>	<b>R</b>
Fees paid	1,153,686	1,102,344
Recoveries received (Note 10)	(969,354)	(862,579)
	<u>184,332</u>	<u>239,765</u>

The Fund entered into a risk transfer arrangement with ER 24 (Pty) Ltd. The agreement covers emergency medical evacuations from scenes of accidents or sudden illness for all beneficiaries of the Fund. The contract is a one year contract, which is renewed annually. The cost of providing the above services outside the agreement is estimated based on private rates.

**13. ADMINISTRATION EXPENSES**

Administration fees	10,191,553	9,710,561
Audit fees	310,544	401,342
Bank charges	62,559	74,568
Consulting fees	1,019,987	1,077,318
Council for Medical Schemes - levies	134,417	131,826
Debt collection fees	30,355	106
Health quality assessment	39,354	37,464
Membership fees	48,490	45,272
PI/Fidelity/Trustees and Officers insurance	39,880	39,880
Printing, postage, stationery and communication services	-	10,971
Rule registration costs	-	1,375
	<u>11,877,139</u>	<u>11,530,683</u>

**14. NET IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES***Accounts receivable*

Members' and service providers' portions that are not recoverable	(134,134)	(108,713)
Movement in provision	122,816	81,299
Written off	(256,950)	(190,012)
	<u>(134,134)</u>	<u>(108,713)</u>

**15. INVESTMENT INCOME**

Financial assets at amortised cost		
- Interest on cash and cash equivalents	304,344	482,116
Financial assets at fair value through profit and loss		
- Interest on fair value through profit or loss investments	8,996,033	8,904,370
- Dividends earned	1,009,345	2,449,496
- Realised (loss)/gain on investments	(3,850,261)	20,871,100
- Unrealised loss/(gain) on investments	2,188,210	(16,666,172)
	<u>8,647,671</u>	<u>16,040,910</u>

**ENGEN MEDICAL BENEFIT FUND****NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020**

	<b>2020</b>	<b>2019</b>
	<b>R</b>	<b>R</b>
<b>16 SUNDRY INCOME</b>		
Stale cheques older than 3 years reversed	-	(3,286)
	<u>-</u>	<u>(3,286)</u>
<b>17 ASSET MANAGEMENT FEES</b>		
Prescient Investment Management (Pty) Ltd	272,809	271,161
Coronation Asset Management (Pty) Ltd	-	(30,694)
Prudential Investment Managers (South Africa) (Pty) Ltd	492,121	319,207
	<u>764,930</u>	<u>559,674</u>

**18 PROFESSIONAL INDEMNITY/FIDELITY/TRUSTEES AND OFFICERS INSURANCE**

In accordance with the rules, the Fund has insurance to cover these risks. On 31 December 2020, the total cover was R10 million (2019: R10 million).

**19 EVENTS AFTER 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 Fund.

The Fund is in a strong financial position and ready to fund the payments in respect of the vaccination process for all beneficiaries.

**20 CONTINGENT ASSET**

No contingent asset exists as at 31 December 2020 as the Fund sold the pending Road Accident Fund claims to Discovery Third Party Recovery Services (DTPRS).

**21 RELATED PARTY TRANSACTIONS****Parties with significant influence over the Fund**

Discovery Holdings (Pty) Ltd has significant influence over the Fund, as they provide administration and managed care services to the Fund, but does not control the Fund.

DTPRS (Discovery Third Party Recovery Services (Pty) Limited) is a wholly owned subsidiary of Discovery Health (Pty) Limited. The purpose of DTPRS is to identify, acquire, manage and collect debt due to the Fund by the RAF and any other third party insurer.

Alexander Forbes Health (Pty) Ltd has significant influence over the Fund, as they provide financial and operational information on which policy decisions are based, but do not control the Fund. Alexander Forbes provides consulting and actuarial services.

**Key management personnel and their close family members**

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

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

**ENGEN MEDICAL BENEFIT FUND**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020**

**21. RELATED PARTY TRANSACTIONS (continued)**

**Transactions with related parties**

The following table provides the transactions which have been entered into with related parties for the relevant financial year.

**Key management personnel (Board of Trustees, medical advisor, Principal Officer and executive committee) and their close family members**

	<b>2020</b>	<b>2019</b>
	<b>R</b>	<b>R</b>
<b>Statement of comprehensive income</b>		
Contributions received	780,290	730,115
Claims incurred	996,121	602,469
Remuneration paid to Medical advisor - Dr Davidson	287,813	274,044
<b>Statement of financial position</b>		
Medical Savings Account trust monies	63,981	126,222

The Principal Officer, Trustees and committee members did not receive any remuneration from the Fund for the years ended 2020 and 2019.

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

**Contributions received**

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

**Claims incurred**

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

**Transactions with entities that have significant influence over the Fund**

**Statement of comprehensive income**

Administration fees - Discovery Health (Pty) Ltd	10,191,553	9,710,561
Managed care fees - Discovery Health (Pty) Ltd	4,367,749	4,161,610
Recoveries received from DTPRS	-	530,943
Consulting fees - Alexander Forbes Health (Pty) Ltd	411,930	411,930

**Statement of financial position**

Administration fees - Discovery Health (Pty) Ltd	842,845	813,663
Managed care fees - Discovery Health (Pty) Ltd	361,214	348,707
Consulting fees - Alexander Forbes Health (Pty) Ltd	34,328	34,328

**Terms and conditions of the administration agreement**

The administration agreement is in terms of the rules of the Fund and in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite but subject to the right of either party to terminate the agreement by giving not less than three months notice.

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2020

#### 21. RELATED PARTY TRANSACTIONS (continued)

##### **Terms and conditions of the managed care agreement**

The managed care agreement is in terms of the rules of the Fund and in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite but subject to the right of either party to terminate the agreement by giving not less than three months notice.

##### **Terms and conditions of the consulting fees**

The consulting fee is paid in accordance with the Service Level Agreement as per the requirements of the Trustees of the Fund.

#### 22. GUARANTEES AND COMMITMENTS

The Fund does not have any guarantees or commitments.

#### 23. INSURANCE RISK MANAGEMENT

##### **NATURE AND EXTENT OF RISKS ARISING FROM INSURANCE CONTRACTS**

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

##### **Insurance risk - description of benefits**

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

- In-hospital benefits cover all costs incurred by members, whilst they are in hospital to receive pre-authorised treatment for certain medical conditions, or costs of high cost care for certain out of hospital benefits.
- Chronic benefits cover the cost of certain prescribed medicines consumed by members for chronic conditions/diseases, such as high blood pressure, cholesterol and asthma.
- Day-to-day benefits cover the cost (up to 100% of the approved Fund rate) of out of hospital medical care (subject to certain sub-limits), such as visits to general practitioners and dentists, as well as prescribed non-chronic medicines.

##### *Risk transfer arrangements*

The Fund transfers a portion of the risks it underwrites to ER 24 via a capitation agreement, in order to control its exposures to losses and protect capital resources. The capitation agreement is, in-substance, the same as a non-proportional reinsurance treaty. The Fund remains liable to its members with respect to these services, in the event that the capitation provider fails to meet its obligation.

##### **Risk management objectives and policies for mitigating insurance risk**

The primary insurance activity carried out by the Fund assumes the risk of loss from members and their dependants that are directly subject to the risk. These risks relate to the health of the Fund's members. As such, the Fund is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Fund also has exposure to market risk through its insurance and investment activities.

The Fund manages its insurance risk through benefit limits and sub-limits, approval procedures for the transactions that involve pricing guidelines, pre-authorisation and case management, service provider profiling as well as the monitoring of emerging issues. The Board of Trustees has developed and approved a documented policy for the acceptance and management of insurance risk to which the Fund is exposed. Reference has also been made to the requirements of the Medical Schemes Act in compiling the insurance risk management policy. This policy is reviewed annually and the benefit option provided to members is structured to fall within the acceptable insurance risk levels specified. The Board of Trustees also determines the policy for entering into alternative risk transfer agreements. The annual business plan is structured around the insurance risk management policy.

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2020

#### 23. INSURANCE RISK MANAGEMENT (continued)

##### **Risk management objectives and policies for mitigating insurance risk (continued)**

The Fund uses several methods to assess and monitor insurance risk exposure both for individual types of risks insured and overall risks. These methods include analysing detailed claims information with the assistance of the Fund's actuarial consultants. The Trustees also appointed a managed care provider to focus on specific areas where the Fund is exposed to insurance risk. These managed care programs include the following:

- Hospital Benefit Management Services
- Pharmaceutical Benefit Management Services
- Disease Risk Management Services
- Disease Risk Management Support Services
- Provider Network Management Services and Clinical Risk Management

The theory of profitability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected.

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Fund has developed its insurance underwriting strategy to diversify the type of insurance risk accepted and within each of these categories to achieve a sufficient large population of risks to reduce the variability of the expected outcome.

##### *Frequency and severity of claims*

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

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

The Fund's strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome. The strategy is set out in the annual business plan, which specifies the benefits to be provided by the Fund.

All the contracts are annual in nature and the Fund has the right to change the terms and conditions of the contract at renewal. Management information including contribution income and claims ratios, target market and demographic split, is reviewed monthly.

These methods include internal risk management models, sensitivity analyses, scenario analyses and stress testing.

**ENGEN MEDICAL BENEFIT FUND****NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020****23. INSURANCE RISK MANAGEMENT (continued)**

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

**2020**

Age grouping	General Practitioners	Specialists	Dentistry	Medicines	Hospital	Optical	Total
0 -25 insured	702,992	3,954,927	1,365,428	2,191,382	5,353,175	454,907	14,022,810
26 - 35 insured	525,762	3,361,470	414,697	1,441,110	3,590,817	515,786	9,849,643
36 - 50 insured	1,271,310	8,236,535	784,842	3,653,097	7,651,555	1,034,013	22,631,353
51 - 64 insured	1,271,436	13,595,916	1,281,936	8,168,301	13,900,436	1,655,554	39,873,579
>65 insured	1,396,788	19,854,345	937,959	12,636,218	24,718,905	2,423,105	61,967,320
ER24	-	-	-	-	-	-	1,153,686
Discount received	-	-	-	-	-	-	(167,301)
Third party claims recoveries	-	-	-	-	-	-	(223,034)
Movement in provision	-	-	-	-	-	-	2,820,000
<b>Total</b>	<b>5,168,288</b>	<b>49,003,194</b>	<b>4,784,862</b>	<b>28,090,108</b>	<b>55,214,888</b>	<b>6,083,364</b>	<b>151,928,055</b>

**2019**

Age grouping	General Practitioners	Specialists	Dentistry	Medicines	Hospital	Optical	Total
0 -25 insured	1,410,357	5,174,093	1,316,322	2,473,697	7,515,240	402,060	18,291,769
26 - 35 insured	839,697	4,108,244	305,924	933,843	5,870,192	301,049	12,358,949
36 - 50 insured	2,300,160	8,064,631	827,128	3,948,708	8,689,532	1,106,132	24,936,291
51 - 64 insured	2,429,910	13,396,499	1,267,145	7,843,670	17,653,103	1,590,367	44,180,694
>65 insured	2,396,297	20,700,579	933,116	12,027,400	28,081,498	2,689,356	66,828,246
ER24	-	-	-	-	-	-	1,102,344
Discount received	-	-	-	-	-	-	(116,943)
Third party claims recoveries	-	-	-	-	-	-	(653,116)
Movement in provision	-	-	-	-	-	-	(1,285,118)
<b>Total</b>	<b>9,376,421</b>	<b>51,444,046</b>	<b>4,649,635</b>	<b>27,227,318</b>	<b>67,809,565</b>	<b>6,088,964</b>	<b>165,643,116</b>

**Claims development**

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

**ENGEN MEDICAL BENEFIT FUND**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020**

**23. INSURANCE RISK MANAGEMENT (continued)**

**Insurance risk sensitivity analysis**

The Fund is exposed to insurance risk as the Fund assumes the risk of loss from members and their dependents that are directly subject to the risk. These risks relate to the health of the Fund's members. As such the Fund is exposed to uncertainty surrounding the timing and severity of claims under the contract.

The insurance risk sensitivity analysis measures the effect that a change in one of the insurance variables will have on the fair value of the provision for outstanding claims as at the reporting date. The analysis is based on the assumption that a change in a specific variable occurs while all other variables remain constant.

The table below outlines the sensitivity of the 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.

*The impact of the sensitivity of the assumed percentages are set out below:*

	<b>Change in liability 2020 R</b>	<b>Change in liability 2019 R</b>
Effect of a 1% change in assumptions	885,720	833,679
Effect of a 2% change in assumptions	1,793,590	1,687,142
Effect of a 3% change in assumptions	2,724,748	2,561,921

The change in the provision will be recognised against claims incurred in the statement of comprehensive income.

**24. FINANCIAL RISK MANAGEMENT REPORT**

**Analysis of carrying amounts of financial assets and financial liabilities per category**

<b>For the year ended 31 December 2020</b>	<b>Financial assets and liabilities at fair value through profit or cost</b>	<b>Loans and receivables at amortised cost</b>	<b>Insurance receivables and payables</b>	<b>Total carrying amount</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Investments: non-current assets	181,854,014	-	-	181,854,014
Investments: current assets	88,545,535	-	-	88,545,535
Cash and cash equivalents	-	14,175,410	-	14,175,410
Accounts receivable	-	475,376	414,224	889,600
Accounts payable	-	1,697,692	457,250	2,154,942
Investment of Medical Savings Account monies	23,086,701	-	-	23,086,701
Medical Savings Account Liability	24,119,788	-	-	24,119,788
	<b>317,606,038</b>	<b>16,348,478</b>	<b>871,474</b>	<b>334,825,990</b>
<b>For the year ended 31 December 2019</b>				
Investments: non-current assets	151,329,627	-	-	151,329,627
Investments: current assets	68,414,413	-	-	68,414,413
Cash and cash equivalents	-	5,844,774	-	5,844,774
Accounts receivable	-	604,305	546,323	1,150,628
Accounts payable	-	1,621,176	2,162,381	3,783,557
Investment of Medical Savings Account monies	19,944,735	-	-	19,944,735
Medical Savings Account Liability	20,636,553	-	-	20,636,553
	<b>260,325,328</b>	<b>8,070,255</b>	<b>2,708,704</b>	<b>271,104,287</b>

**ENGEN MEDICAL BENEFIT FUND**
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020**
**24. FINANCIAL RISK MANAGEMENT REPORT (continued)**
**Risk management**

The Fund's activities expose it to a variety of financial risks, including the effects of changes in the equity market price, counter party and interest rates. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potentially adverse effects on the financial performance of the investments that the Fund holds to meet its obligation to its members.

Risk management and investment decisions are made under the guidance, and policies approved by, the Board of Trustees. The Board of Trustees approves all these written policies.

**Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through liquid holding cash positions with various financial institutions, to ensure the Fund has the ability to fund its day-to-day operations.

At year-end 41% (2019: 38%) of the Fund's assets were invested in cash products to ensure the Fund can meet its short-term liabilities. The table below illustrates the prudent liquidity position of the Fund:

	<b>Up to 1 Month</b>	<b>1 - 3 Months</b>	<b>4 - 12 Months</b>	<b>Total</b>
<b>2020</b>		<b>R</b>	<b>R</b>	<b>R</b>
<b>Liabilities</b>				
Outstanding risk claims provision	(7,041,557)	(1,398,000)	(880,443)	(9,320,000)
Insurance payables	(457,250)	-	-	(457,250)
Other payables	(1,697,692)	-	-	(1,697,692)
Medical Savings Account trust monies	-	-	(24,119,788)	(24,119,788)
	(9,196,499)	(1,398,000)	(25,000,231)	(35,594,730)
<b>Assets</b>				
Fair value through profit or loss: current assets	9,162,477	26,566,218	52,816,840	88,545,535
Cash and cash equivalents	14,175,410	-	-	14,175,410
Medical Savings Account trust monies	23,086,701	-	-	23,086,701
<b>Excess liquidity</b>	<b>37,228,089</b>	<b>25,168,218</b>	<b>27,816,609</b>	<b>90,212,916</b>

	<b>Up to 1 Month</b>	<b>1 - 3 Months</b>	<b>4 - 12 Months</b>	<b>Total</b>
<b>2019</b>		<b>R</b>	<b>R</b>	<b>R</b>
<b>Liabilities</b>				
Outstanding risk claims provision	(3,754,257)	(1,686,221)	(1,059,522)	(6,500,000)
Insurance payables	(2,162,381)	-	-	(2,162,381)
Other payables	(1,621,176)	-	-	(1,621,176)
Personal medical savings account trust monies	-	-	(20,636,553)	(20,636,553)
	(7,537,814)	(1,686,221)	(21,696,075)	(30,920,110)
<b>Assets</b>				
Fair value through profit or loss: current assets	19,614,120	17,106,873	31,693,420	68,414,413
Cash and cash equivalents	5,844,774	-	-	5,844,774
Medical Savings Account trust monies	19,944,735	-	-	19,944,735
<b>Excess liquidity</b>	<b>37,865,815</b>	<b>15,420,652</b>	<b>9,997,345</b>	<b>63,283,812</b>

As can be seen from the table above, the Fund has cash in excess of its short-term liabilities, indicating a positive liquidity position.

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2020

#### 24. FINANCIAL RISK MANAGEMENT REPORT (continued)

##### Credit risk

The Fund's principal financial assets are cash and cash equivalents, accounts receivable and fair value through profit or loss investments. The Fund's credit risk is primarily attributable to its accounts receivable. The amounts presented in the statement of financial position are net of allowances for doubtful receivables. An allowance for impairment is made based on the expected credit loss model.

The credit loss model is applied to insurance receivables to the effect that all amounts receivable in the age category of ninety days and older are fully allowed for as doubtful receivables. Other receivables are considered in the expected credit loss model, but the current amount owing mainly relates to interest receivable from high credit quality financial institutions and therefore no allowance was made for other receivables.

The Fund manages credit risk by:

- Actively pursuing all contributions not received after 3 days of becoming due, as required by S26(7) of the Medical Schemes Act, 131 of 1998, as amended;
- Monthly reconciliations between the administrator and the employer to determine possible suspension of defaulting members; and
- Ageing and pursuing unpaid debt on a monthly basis.

The table below illustrates the quality of the Fund's accounts receivables.

31 December 2020	Fully performing	Past due	Impaired	Total carrying amount
Insurance receivables				
- Contributions outstanding	1,451,246	24,899	-	1,476,145
- Amount owing from suppliers and members	71,812	48,818	293,594	414,224
Accrued interest	437,259	-	-	437,259
<b>Total</b>	<b>1,960,317</b>	<b>73,717</b>	<b>293,594</b>	<b>2,327,628</b>

31 December 2019	Fully performing	Past due	Impaired	Total carrying amount
Insurance receivables				
- Amount owing from suppliers and members	76,229	53,685	416,409	546,323
Accrued interest	573,914	-	-	573,914
<b>Total</b>	<b>650,143</b>	<b>53,685</b>	<b>416,409</b>	<b>1,120,237</b>

The following age analysis applies to receivables past due, but not yet impaired:

31 December 2020	30 days	60 days	90 days	Total
Contributions outstanding	6,785	2,645	15,469	24,899
Amount owing from suppliers and members	24,032	24,786	-	48,818
<b>Total</b>	<b>30,817</b>	<b>27,431</b>	<b>15,469</b>	<b>73,717</b>

31 December 2019	30 days	60 days	90 days	Total
Contributions outstanding	-	-	-	-
Amount owing from suppliers and members	42,596	11,089	-	53,685
<b>Total</b>	<b>42,596</b>	<b>11,089</b>	<b>-</b>	<b>53,685</b>

The member debt have similar credit quality as Contribution debt as these debtors are members of the Fund. Provider debtors are the healthcare providers of the Fund. The amounts due to the Fund are offset against future payments to be made to these providers.

**ENGEN MEDICAL BENEFIT FUND**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 31 December 2020

**24. FINANCIAL RISK MANAGEMENT REPORT (continued)**

**Credit risk (continued)**

There has been no change to the credit risk in cash and cash equivalents, and cash transactions are limited to high credit quality financial institutions. The Fund has a policy of limiting the amount of credit exposure to any one financial institution with high credit ratings assigned by Fitch ratings agency.

**Fitch National Long-Term Rating**

Financial Institution	2020	2019	Credit Rating	
	R	R	2020	2019
First National Bank	14,175,410	5,844,774	Ba1	BBB-

The Fund's financial assets at fair value through profit and loss as well as the investment of member's savings balances are with reputable financial institutions and these investments are in Medical Scheme (Regulation 30) compliant products. The credit risk is deemed to be very low and no provision for impairment is required.

**Market risk**

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

**Currency risk**

The benefits of the Fund are Rand-denominated and therefore the Fund does not have any significant net currency risk on its benefits.

**Interest rate risk**

The Fund holds 80.25% (2019: 77.46%) of its investments in interest-bearing instruments and 19.75% (2019: 22.54%) in equities. This exposes the Fund's investments to changes in market interest rates.

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

2020	Up to 1 Month	1 - 12 Months	Over 1 year	Total
Fair value through profit or loss: non-current assets	16,476,173	32,311,692	76,850,039	125,637,904
Fair value through profit or loss: current assets	9,162,477	79,383,058	-	88,545,535
Cash and cash equivalents	14,175,410	-	-	14,175,410
Medical Savings Account trust monies	23,086,701	-	-	23,086,701
<b>Total</b>	<b>62,900,761</b>	<b>111,694,750</b>	<b>76,850,039</b>	<b>251,445,550</b>

2019	Up to 1 Month	1 - 12 Months	Over 1 year	Total
Fair value through profit or loss: non-current assets	31,989,340	17,890,921	50,591,193	100,471,454
Fair value through profit or loss: current assets	19,614,120	48,800,293	-	68,414,413
Cash and cash equivalents	5,844,774	-	-	5,844,774
Medical Savings Account trust monies	19,944,735	-	-	19,944,735
<b>Total</b>	<b>77,392,969</b>	<b>66,691,214</b>	<b>50,591,193</b>	<b>194,675,376</b>

**Equity price risk**

The Fund is exposed to equity price risk as it invested funds in South African equities through its fair value through profit or loss investment portfolios. The Fund's equity portfolio is a long-term investment, and the funds invested in this portfolio are not needed in the short- or medium-term. This mitigates the risk for short-term fluctuations in the equity market. The Fund appointed reputable investment managers with good performance track records.

ENGEN MEDICAL BENEFIT FUND

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020

24. FINANCIAL RISK MANAGEMENT REPORT (continued)

Market risk sensitivity analysis (continued)

*Currency value sensitivity analysis*

	Fair value	5% strengthening in ZAR	10% strengthening in ZAR	20% strengthening in ZAR
	R	R	R	R
<b>2020</b>				
Fair value through profit or loss investments	181,854,014	183,450,012	185,104,024	188,559,261

	Fair value	5% strengthening in ZAR	10% strengthening in ZAR	20% strengthening in ZAR
	R	R	R	R
<b>2019</b>				
Fair value through profit or loss investments	151,329,627	150,158,790	150,448,874	151,136,370

*Interest rate sensitivity analysis*

	Fair value	1% increase in interest rate	2.5% increase in interest rate	5% increase in interest rate
	R	R	R	R
<b>2020</b>				
Fair value through profit or loss investments	181,854,014	176,854,326	173,416,285	158,350,845

	Fair value	1% increase in interest rate	2.5% increase in interest rate	5% increase in interest rate
	R	R	R	R
<b>2019</b>				
Fair value through profit or loss investments	151,329,627	147,659,962	144,445,307	139,500,620

*Equity price sensitivity analysis*

	Fair value	5% decrease in equity market	10% decrease in equity market	20% decrease in equity market
	R	R	R	R
<b>2020</b>				
Fair value through profit or loss investments	181,854,014	179,143,069	176,441,728	171,069,365

	Fair value	5% decrease in equity market	10% decrease in equity market	20% decrease in equity market
	R	R	R	R
<b>2019</b>				
Fair value through profit or loss investments	151,329,627	147,788,971	145,675,610	141,554,781

**ENGEN MEDICAL BENEFIT FUND**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020**

**24. FINANCIAL RISK MANAGEMENT REPORT (continued)**

**Fair value estimation**

The fair value investments is based on quoted market prices at the reporting date. The face value, less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Fund for similar financial instruments.

**Fair value sensitivity analysis**

The market risk sensitivity analysis measures the effect that a change in one market risk variable, will have on the fair value of investments as at the reporting date. The analysis is based on the assumption that a change in a specific variable occurs while all other variables remain constant. The market risk variables include interest rates, currency values and equity prices. The tables above illustrate the resulting fair value change with various fluctuations in a specific variable.

**Fair values**

Set out below is a comparison by category of carrying amounts and fair values of all of the Fund's financial instruments:

	<b>Carrying amount at fair value</b>	
	<b>2020</b>	<b>2019</b>
	<b>R</b>	<b>R</b>
<i>Financial assets</i>		
Fair value through profit or loss investments:		
Non-current assets	181,854,014	151,329,627
Fair value through profit or loss investments:		
Current assets	88,545,535	68,414,413
Cash and cash equivalents	14,175,410	5,844,774
Trade and other receivables	2,034,035	703,828
- Loans and receivables	437,259	573,914
- Insurance receivables	1,596,776	129,914
<i>Financial liabilities</i>		
Outstanding claims provision	9,320,000	6,500,000
Trade and other payables	2,154,942	3,783,557
- Insurance payables	457,250	2,162,381
- Other payables	1,697,692	1,621,176
- Medical Savings Account liability	24,119,788	20,636,553

**Fair value of financial assets by hierarchy level**

The fair value of investments is based on quoted market prices at the reporting date. The significance of the financial instrument determines the classification of the instrument in the fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. These are readily available in the market and are normally obtainable from multiple sources.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).
- Reclassification: In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from level 1 to level 2 and from level 2 to level 3.

**ENGEN MEDICAL BENEFIT FUND**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020**

**24. FINANCIAL RISK MANAGEMENT REPORT (continued)**

**Fair values (continue)**

The table below illustrates the fair values of financial assets by hierarchy level:

<b>As at 31 December 2020</b>	<b>Level 1 R</b>	<b>Level 2 R</b>	<b>Level 3 R</b>	<b>Reclassification R</b>
Cash	24,661,548	-	-	-
Equities	47,845,360	-	-	-
Bonds	-	100,976,356	-	-
Listed property	8,370,750	-	-	-
<b>Total</b>	<b>80,877,658</b>	<b>100,976,356</b>	-	-

<b>As at 31 December 2019</b>	<b>Level 1 R</b>	<b>Level 2 R</b>	<b>Level 3 R</b>	<b>Reclassification R</b>
Cash	34,063,960	-	-	-
Equities	42,085,707	-	-	-
Bonds	-	66,407,494	-	-
Listed property	8,772,466	-	-	-
<b>Total</b>	<b>84,922,133</b>	<b>66,407,494</b>	-	-

If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Trade and other receivables and payables were not carried at fair value in the statement of financial position but their carrying value approximates fair value due to their short-term nature.

**ENGEN MEDICAL BENEFIT FUND****NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020****24. FINANCIAL RISK MANAGEMENT REPORT (continued)****Derivatives**

Derivative instruments are used by the investment managers for the purpose of reducing investment risk, enabling diversification of asset allocations and interest rate exposures without having to divest from the instruments in the portfolios.

Derivatives used can generally be classified as futures and options.

*Futures*

Futures are contracts giving the holder or issuer the obligation to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardised exchange-traded contracts. Futures trading may also be illiquid. Certain futures exchanges do not permit trading in particular futures contracts at prices that represent a fluctuation in price during a single day's trading beyond certain set limits. If prices fluctuate during a single day's trading beyond those limits, the Fund could be prevented from promptly liquidating unfavourable positions and thus could be subject to substantial losses.

*Options*

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer a specified underlying instrument at a specified price on or before a specified date. The Fund enters into exchange-traded option contracts to meet the requirements of their risk management and trading activities.

**Unconsolidated investment structures**

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

The Fund has concluded that open-ended investment funds into which it invests, but does not consolidate, meet the definition of structured entities. The voting rights in the respective funds are not dominant rights in deciding who controls them because they relate to administrative rights only, each fund's activities are restricted by its prospectus/investment mandate which are assess to have narrow well-defined objectives.

The Fund has investments in collective investment schemes as listed in the table below. The Fund's maximum exposure is limited to the total fair value of its investments in the funds.

<b>Fund</b>	<b>as at 31 December 2020</b>			<b>as at 31 December 2019</b>		
	<b>Investment</b>	<b>Portfolio Size</b>	<b>% of portfolio size</b>	<b>Investment</b>	<b>Portfolio Size</b>	<b>% of portfolio size</b>
Prescient Money Market Fund - B1	88,545,535	3,684,097,223	2.4%	68,414,413	3,515,924,850	1.9%
Prescient Positive Return Fund	76,250,890	3,685,339,433	2.1%	76,437,941	3,515,930,763	1.9%
Prudential Life Inflation Plus 5% Medical Aid Fund	105,603,126	1,066,892,554	9.9%	74,891,686	857,195,219	8.7%

**ENGEN MEDICAL BENEFIT FUND****NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2020****25. CAPITAL ADEQUACY**

The Fund's objective is to manage its capital in such a way that the annual contribution increase to members is as low as possible, or at least in line with the participating employers' salary increases. The Fund therefore decided to use some of its investment income to fund any possible deficit that might occur as a result of operational losses.

The Fund monitors capital using a solvency ratio, which is accumulated funds divided by gross contributions (refer to note 5.3 in the Report of the Board of Trustees). The Medical Schemes Act requires the Fund to maintain a solvency ratio of 25%. The Fund includes members' funds, less the unrealised gains on financial assets through profit or loss, as a measure of capital. This measure of capital is consistent with the prior year, and there have been no changes in the Fund's objectives, policies and procedures for managing capital from 31 December 2019 to 31 December 2020.

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

The accumulated funds ratio was 110.88% at 31 December 2020 and 90.11% at 31 December 2019. The accumulated funds ratio exceeds the prescribed accumulated funds ratio of 25%.

**26. NON-COMPLIANCE WITH THE MEDICAL SCHEMES ACT**

The Council for Medical Schemes stipulated, via Circular 11 of 2008, that all cases of non-compliance with the Act should be disclosed in the annual financial statements. The following stipulations were not complied with during the year:

**26.1 Contravention of section 35(8)(c) of the Medical Schemes Act****Nature and impact**

The Fund holds investments in Discovery Holdings Ltd, Momentum Metropolitan Holdings Limited and Sanlam Ltd. This is in contravention of section 35(8)(c) of the Act, as the Fund is not allowed to hold shares in the holding company of the Administrator or any other Administrator.

**Causes for the failure**

The Fund invested in a pooled fund and does not have control of the investment decisions relating to the underlying assets.

**Corrective action**

The Fund applied for exemption from the Council for Medical Schemes in terms of section 35(8) in order to hold these shares.

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2020

#### 26. NON-COMPLIANCE WITH THE MEDICAL SCHEMES ACT (continued)

##### 26.2 Contravention of section 26(7) of the Medical Schemes Act

###### Nature and impact

Section 26(7) of the Act requires that "All subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due". A limited number of exceptions were noted during the year where contributions were received late.

###### Cause of failure

Membership changes may cause reconciliation items between the employer and the Fund records. These are typically resolved within one month.

###### Corrective action

The Fund continually strives to have all membership changes updated before the following contribution run. Due to the nature of membership movement, and the communication process between the employers and pension administrators on the one hand, and the Administrator on the other, this is not always possible.

##### 26.3 Claims not settled within 30 days

###### Nature and impact

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.

###### Causes for the failure

A few complex cases also took more than 30 days to resolved for payment.

###### Corrective Action

Management is committed to resolve these matters in a responsible manner and in the best interest of the member and the Fund.

#### 27. GOING CONCERN

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

- The reserve ratio at the end of the year was 110.88%.
- Available cash and investments at the end of the year amounted to R284,574,959

The Board gave special attention to the impact of COVID-19 on the the Fund's going concern status:

Beneficiaries of the Fund delayed medical procedures in 2020 as they avoided healthcare facilities in the fear of contracting the COVID-19 virus. The Fund expects this delayed cost together with increased cost due to a second and third waves to increase the claims expenditure in the Fund. This increased cost will not change the Fund's going concern status.

The Board considered the cost of COVID-19 since the start of the Pandemic until 11 April, which amounted to R19.1m, in relation to the R42.5m savings against claims during 2020 due to members not visiting healthcare facilities, and concluded that the expected future cost of the Pandemic should not materially impact the Fund's strong financial position. It is therefore a fair assumption to assume a going concern status.

The Fund did not provide financial relieve to members which impacted the financial position of the Fund, and nor was it necessary to raise any additional provisions for doubtful debt.

Although investment markets did not perform well during the 2020 year, it is not necessary to impair any of the assets. Investment markets recovered well during the last quarter of 2020, and did exceptionally well during January and February 2021. The performance of the investments enhanced the Trustee's view that the Fund will be a going concern in the foreseeable future.