

ENGEN MEDICAL BENEFIT FUND

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019, 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 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 statements.

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.

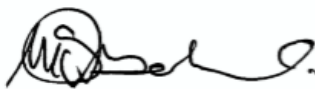
The going concern basis has been adopted in preparing the annual financial statements. The Trustees have no reason to believe that the Fund will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These annual financial statements support the viability of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

The Fund's external auditors, PricewaterhouseCoopers, are responsible for auditing the annual financial statements in terms of International Standards on Auditing and their report is presented on pages 11 to 14.

The annual financial statements were approved by the Board of Trustees on 21 April 2020 and signed on its behalf:



.....
R Marchant
Chairperson



.....
S Abrahams
Trustee



.....
L Shaw
Principal Officer

21 April 2020

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.

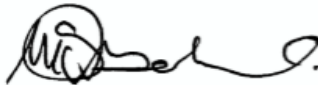
INTERNAL CONTROL

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.



.....
R Marchant
Chairperson



.....
S Abrahams
Trustee



.....
L Shaw
Principal Officer

21 April 2020

ENGEN MEDICAL BENEFIT FUND

REPORT OF THE BOARD OF TRUSTEES for the year ended 31 December 2019

The Board of Trustees hereby presents its report for the year ended 31 December 2019.

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	
Ms N Ngema	Employer representative	
Mr S Chili	Employer representative	
Ms D Mokotjo	Employer representative	
Ms C Mareka	Employer representative	(Resigned: 30 June 2019)
Ms S Moroka-Mosia	Employer representative	(Appointed: 21 November 2019)

Elected members

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

The Board of Trustees is assisted by:

Dr A Davidson	Medical Advisor
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1.2 Principal Officer

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

1.3 Registered office address and postal address

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

Country of registration and domicile:	South Africa
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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 2019**

1.5 Managed care provider

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

Prescient Investment Management (Pty) Ltd Prescient House The Terraces Steenberg Boulevard Steenberg Office Park 7966	P O Box 31142 Tokai 7966
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Coronation Asset Management (Pty) Ltd Seventh Floor MontClare Place Cnr. Campground and Main Roads Claremont 7708 Contract terminated in March 2019.	P O Box 44684 Claremont 7735
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Prudential Portfolio Managers (South Africa) Life Limited Seventh Floor Protea Place 40 Dreyer Street Claremont 7708 Contract started in March 2019.	P O Box 44813 Claremont 7735
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1.7 Investment Consultants

Momentum consultants and actuaries 269 West Avenue Centurion 0157	P O Box 7400 Centurion 0046
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1.8 Actuaries

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

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

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2019

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 7.97% (2018: 6.32%).

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 objectives are 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 R Marchant	Chairperson (Board of Trustees)
Mr S Abrahams	Trustee
Mr N Magan	Independent
Ms L Shaw	(Principal Officer) in ex-officio capacity

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

- 15 February 2019;
- 16 May 2019;
- 29 August 2019; and
- 8 November 2019

ENGEN MEDICAL BENEFIT FUND

REPORT OF THE BOARD OF TRUSTEES for the year ended 31 December 2019

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

	2019	2018
Average number of members during the accounting period	3,455	3,346
Number of members at 31 December	3,476	3,409
Average number of beneficiaries during the accounting period	6,895	6,888
Number of beneficiaries at 31 December	6,843	6,930
Dependant ratio	0.97	1.03
Number of new members	263	301
Number of members leaving	196	276
Average age of beneficiaries for the accounting period	40.08	39.82
Proportion of lives over the age of 65	17.59%	17.30%
Average net contribution per member per month (R)	5,136	5,045
Average net contribution per beneficiary per month (R)	2,574	2,451
Relevant healthcare expenditure as a percentage of net contributions (%)	79.49%	86.67%
Non-healthcare expenses as a percentage of net contributions (%)	5.47%	5.48%
Non-healthcare expenses per beneficiary per month (R)	141	134
Average healthcare management expense per member per month (R)	100	134
Average healthcare management expense per beneficiary per month (R)	51	65
Managed care: management services as a percentage of gross contributions	1.76%	2.39%
Amount paid to administrators (R)	9,710,561	9,580,299
Accumulated funds per member at 31 December (R)	61,953	49,231
Return on investments	7.08%	3.94%
Reserves per beneficiary (R)	31,470	24,218

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 2019****5.3 Accumulated funds ratio**

The accumulated funds ratio is calculated on the following basis:

	2019	2018
	R	R
Total members' funds per statement of financial position	215,347,657	167,828,521
Less: Unrealised gains on investments	(2,184,937)	(18,851,109)
Accumulated funds per Regulation 29	<u>213,162,720</u>	<u>148,977,412</u>
Gross contributions	<u>236,559,291</u>	<u>225,069,726</u>
Accumulated funds ratio	<u>90.11%</u>	<u>66.19%</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

Subsequent to the reporting date the President of South Africa declared a national state of disaster as a result of the global COVID-19 pandemic on 15 March 2020. Even though South Africa is in the early stage of the outbreak, there are many uncertainties about the potential impact of COVID-19 on the Fund and its members. The actuaries has considered various possible scenarios to assess the potential impact of COVID-19. The results of the scenarios indicate that the Fund's going concern status is not at risk. The Fund's strong financial position and reserve levels allows the Fund to absorb the potential negative impact of COVID-19 with no impact on the Funds's ability to pay claims as they arise.

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:

- 15 April 2019; and
- 6 November 2019.

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.

At 31 December 2019, 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
Ms L Shaw	Principal Officer (ex Officio)

ENGEN MEDICAL BENEFIT FUND**REPORT OF THE BOARD OF TRUSTEES****for the year ended 31 December 2019****9. PROFESSIONAL INDEMNITY/FIDELITY/TRUSTEES AND OFFICERS INSURANCE**

In accordance with the Rules, the Fund has insurance to cover these risks. On 31 December 2019, the total cover was R10 million (2018: R10 million).

10. 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 90.11%.
- Available cash and investments at the end of the year amounted to R225,588,814.

11. BOARD OF TRUSTEES AND COMMITTEE MEETING ATTENDANCE

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

Trustee / Sub Committee member	Board meetings		Audit Committee meetings		Investment Committee meetings	
	A	B	A	B	A	B
Mr R Marchant - Chairperson	4	4	2	2	4	4
Ms N Ngema	4	4	2	2		
Mr S Chili	4	3				
Ms D Mokotjo	4	2				
Ms C Mareka	2	1				
Ms S Moroka-Mosia	1	1				
Mr S Abrahams	4	4			4	3
Ms G King	4	4				
Dr A Gray	4	4				
Ms A Bennetts	4	3				
Mr T Nthabane	4	4	2	2		
Ms S Koen			2	2		
Ms L Prins			2	2		
Mr N Sithebe			2	1	4	3
Mr N Magan					4	4
Ms Ngcwabe			2	2		
Mr A van Niekerk					1	1
Ms L Shaw *	4	4	2	2	4	4

A - Total possible number of meetings could have attended

B - Actual number of meetings attended

* By invitation in her capacity as Principal Officer

ENGEN MEDICAL BENEFIT FUND

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2019

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 has been granted exemption by the Council for Medical Schemes in terms of section 35(8) and is therefore allowed 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 Prescribed minimum benefits

Nature and impact

Section 29(1)(o) and Regulation 8 provide the scope and level of minimum benefits that the Fund must provide to members and dependents. During the year under review there were isolated instances where the Fund did not pay claims in accordance with the scope and level of minimum benefits.

Causes for the failure

The complexity of prescribed minimum benefits created differences in interpretation.

Corrective Action

The Fund is aligning its interpretation of prescribed minimum benefits with CMS's interpretation, and affected claims are being reprocessed to ensure correct payment.

12.4 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 limited number of members and providers chose to receive payment once a month, which caused instances where payment took more than 30 days. 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.

ENGEN MEDICAL BENEFIT FUND

STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

	Notes	2019 R	2018 R
ASSETS			
Non-current assets			
Financial assets at fair value through profit or loss	2	151,329,627	125,408,188
Current assets			
Financial assets at fair value through profit or loss	2.1	94,938,140	75,769,915
Trade and other receivables	3	68,414,413	44,641,371
Cash and cash equivalents	4	734,218	936,241
Investment of Medical Savings Account monies	5	5,844,774	10,564,863
		19,944,735	19,627,440
Total assets		<u>246,267,767</u>	<u>201,178,103</u>
FUNDS AND LIABILITIES			
Members' funds			
Accumulated funds		215,347,657	167,828,521
		<u>215,347,657</u>	<u>167,828,521</u>
Current liabilities			
Medical Savings Account liability	6	30,920,110	33,349,582
Trade and other payables	7	20,636,553	18,462,986
Outstanding claims provision	8	3,783,557	5,929,991
		6,500,000	8,956,605
Total funds and liabilities		<u>246,267,767</u>	<u>201,178,103</u>

ENGEN MEDICAL BENEFIT FUND

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Notes	2019 R	2018 R
Risk contribution income	9	212,955,014	202,573,372
Relevant healthcare expenditure		(169,274,432)	(175,562,930)
Net claims incurred		(169,034,667)	(175,614,194)
Risk claims incurred	10	(165,643,116)	(170,759,229)
Managed care: management services	11	(4,161,610)	(5,374,699)
Third party claim recoveries		770,059	519,734
Net (expense)/income on risk transfer arrangement	12	(239,765)	51,264
Risk transfer arrangement fee		(1,102,344)	(909,767)
Recoveries received on risk transfer arrangement		862,579	961,031
Gross healthcare result		43,680,582	27,010,442
Administration expenditure	13	(11,530,683)	(11,030,893)
Net impairment losses on healthcare receivables	14	(108,713)	(72,169)
Net healthcare result		32,041,186	15,907,380
Other income		17,380,925	8,020,508
Investment income	15	16,040,910	6,867,706
Interest on Medical Savings Account trust monies		1,343,301	1,016,343
Sundry income	16	(3,286)	136,459
Other expenditure		(1,902,975)	(1,513,333)
Asset management fees	17	(559,674)	(496,990)
Interest paid on Medical Savings Account trust monies		(1,343,301)	(1,016,343)
Net surplus for the year		47,519,136	22,414,556
Total comprehensive income for the year		47,519,136	22,414,556

ENGEN MEDICAL BENEFIT FUND

**STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2019**

	Accumulated Funds	Revaluation Reserve	Total Members Funds
	R	R	R
Balance as at 1 January 2018	122,720,666	22,693,299	145,413,965
IFRS 9 transition adjustment	22,693,299	(22,693,299)	-
Net surplus for the year	22,414,556	-	22,414,556
Balance as at 31 December 2018	<u>167,828,521</u>	<u>-</u>	<u>167,828,521</u>
Net surplus for the year	47,519,136	-	47,519,136
Balance as at 31 December 2019	<u>215,347,657</u>	<u>-</u>	<u>215,347,657</u>

ENGEN MEDICAL BENEFIT FUND

**STATEMENT OF CASH FLOWS
for the year ended 31 December 2019**

	Notes	2019 R	2018 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year		47,519,136	22,414,556
Adjustments for:			
Investment income		4,830,190	(8,467,190)
Interest on Medical Savings Account trust monies		(1,343,301)	(1,016,343)
Interest paid on Medical Savings Account trust monies		1,343,301	1,016,343
Impairment losses		108,713	72,169
Cost incurred in managing investments		559,674	496,990
Net realised and unrealised (gains)/losses		(20,871,100)	1,304,405
Cash flows from operations before working capital changes		<u>32,146,613</u>	<u>15,820,930</u>
Working capital changes:			
Decrease in accounts receivable		93,311	1,928,709
Decrease in accounts payable		(2,146,434)	(2,821,756)
Increase/(decrease) in Medical Savings Account liability		2,173,567	(479,711)
(Decrease)/increase in outstanding claims provision		(2,456,605)	3,869,509
		<u>(2,336,161)</u>	<u>2,496,751</u>
Cash flows from operating activities		29,810,452	18,317,681
Interest received		<u>4,559,798</u>	<u>3,128,205</u>
Net cash flows from operating activities		<u>34,370,250</u>	<u>21,445,886</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Withdrawal from fair value through profit or loss investments		61,467,847	5,000,000
Purchase of fair value through profit or loss investments		(100,240,891)	(5,000,000)
Reclassification of money market investment		-	(44,641,371)
Net cash flows from investing activities		<u>(38,773,044)</u>	<u>(44,641,371)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>(4,402,794)</u>	<u>(23,195,485)</u>
Cash and cash equivalents at the beginning of the year		30,192,303	53,387,788
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4 & 5	<u>25,789,509</u>	<u>30,192,303</u>
Fund		<u>5,844,774</u>	<u>10,564,863</u>
Medical Savings Account trust monies		<u>19,944,735</u>	<u>19,627,440</u>

ENGEN MEDICAL BENEFIT FUND

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2019

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 2019 and relevant to the Fund:

No new standards, amendments and interpretations were effective and relevant to the Fund in 2019.

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

	Effective date
<p>IFRS 17 Insurance Contracts - 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"> • Reinsurance contracts held; • Direct participating contracts; and • Investment contracts with discretionary participation features. <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>	01 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 2019

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 2019

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 2019

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 2019

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 2019

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 statements.

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 2019**

	2019	2018
	R	R
2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Non-current assets		
Opening balance	125,408,188	121,870,597
Movement in accrued interest	-	295,079
Withdrawals	(61,467,847)	(5,000,000)
Contribution	76,467,849	5,000,000
Capitalised interest	4,826,686	7,365,852
Capitalised dividends	2,449,498	1,520,244
Capitalised net realised gains/(losses)	20,871,099	(1,304,405)
Cost incurred in managing investments	(559,673)	(496,990)
Unrealised gains	(16,666,173)	(3,842,189)
Fair value at the end of the year	<u>151,329,627</u>	<u>125,408,188</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 2019. A register of investments is available for inspection at the registered office of the Fund.

The look-through fair value investments comprise:

- Bills & bonds	66,407,494	65,866,795
- Listed property	8,772,466	7,861,739
- Preference & ordinary shares	42,085,707	25,095,614
- Cash and call account	34,063,960	26,584,040
	<u>151,329,627</u>	<u>125,408,188</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.

2.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Current assets

Money market	68,414,413	44,641,371.00
Fair value at the end of the year	<u>68,414,413</u>	<u>44,641,371.00</u>

The weighted effective interest rate on the money market account at 31 December 2019 was 7.98% (2018: 7.90%).

ENGEN MEDICAL BENEFIT FUND

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2019**

3. TRADE AND OTHER RECEIVABLES	2019	2018
	R	R
Insurance receivables		
Contributions outstanding	-	-
Amounts owing from suppliers and members	546,323	809,311
Less: Provision for impairment losses	(416,409)	(497,707)
	<u>129,914</u>	<u>311,604</u>
Risk transfer arrangement		
Share of outstanding claims provision	-	156,605
	<u>129,914</u>	<u>468,209</u>
Other receivables		
Accrued interest	573,914	465,569
Forensic recoveries	30,391	2,463
	<u>734,218</u>	<u>936,241</u>
Analysis of movements in respect of risk transfer arrangement		
Balance at the beginning of the year	156,605	72,447
Adjustments for the current year	(156,605)	84,158
Balance at the end of the year	<u>-</u>	<u>156,605</u>

The carrying amounts of accounts receivable approximate their fair values due to the short-term maturities of these assets.

4. CASH AND CASH EQUIVALENTS

Current accounts	5,844,774	10,564,863
	<u>5,844,774</u>	<u>10,564,863</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	19,944,735	19,627,440
	<u>19,944,735</u>	<u>19,627,440</u>

The average interest rate on Medical Savings Account monies was 7.97% (2018: 6.32%).

ENGEN MEDICAL BENEFIT FUND**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2019****6. MEDICAL SAVINGS ACCOUNT MONIES MANAGED BY THE
FUND ON BEHALF OF ITS MEMBERS**

	2019	2018
	R	R
Balance on Medical Savings Account liability at the beginning of the year	18,462,986	18,942,697
Less: Advances on Medical Savings Accounts at the beginning of the year	-	(77,914)
Balance on Medical Savings Account liability at the beginning of the year	<u>18,462,986</u>	<u>18,864,783</u>
Add: Medical Savings Account contribution received/receivable for the year	23,604,277	22,496,354
Interest earned on Medical Savings Account monies invested	1,343,301	1,016,343
Transfer of debit balances	871,408	-
Less: Claims paid on behalf of members	(22,799,484)	(22,028,848)
Refunds on death or resignations	<u>(845,935)</u>	<u>(1,885,646)</u>
	<u>20,636,553</u>	<u>18,462,986</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>20,636,553</u></u>	<u><u>18,462,986</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 2019, but not recorded, will amount to R125,078 (2018: R167,170) (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

	2019	2018
	R	R
Insurance payables	2,162,381	3,965,023
Contributions received in advance	56,727	101,358
Stale cheques	-	23,264
Reported claims not paid	<u>2,105,654</u>	<u>3,840,401</u>
Other payables	1,621,176	1,964,968
Accrued expenses	<u>1,579,419</u>	<u>1,866,562</u>
Sundry payables and provisions	<u>41,757</u>	<u>98,406</u>
	<u><u>3,783,557</u></u>	<u><u>5,929,991</u></u>
Reported claims not yet paid		
Balance at the beginning of the year	3,840,401	4,754,735
Movement for the year	<u>(1,734,747)</u>	<u>(914,334)</u>
Balance at the end of the year	<u><u>2,105,654</u></u>	<u><u>3,840,401</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 2019**

8. OUTSTANDING RISK CLAIMS PROVISION

	Covered by risk transfer arrangements	Not covered by risk transfer arrangements
2019		
Provision for outstanding risk claims	-	6,500,000
<i>Analysis of movements in outstanding risk claims</i>		
Balance at the beginning of the year	156,605	8,800,000
Payments in respect of the prior year	(156,605)	(7,628,513)
Over provision in respect of the prior year	-	1,171,487
Adjustment for the current year	-	5,328,513
Balance at the end of the year	-	6,500,000
<i>Analysis of outstanding risk claims provision</i>		
Estimated gross claims	-	6,625,078
Outstanding claims provision relating to risk transfer arrangement	-	-
Less: Estimated recoveries from Medical Savings Accounts	-	(125,078)
Balance at end of year	-	6,500,000
Total outstanding risk claims provision		6,500,000
2018		
Provision for outstanding risk claims	156,605	(8,800,000)
<i>Analysis of movements in outstanding risk claims</i>		
Balance at the beginning of the year	72,447	5,014,649
Payments in respect of the prior year	(72,447)	(5,220,133)
Under provision in respect of the prior year	-	(205,484)
Adjustment for the current year	156,605	9,005,484
Balance at the end of the year	156,605	8,800,000
<i>Analysis of outstanding risk claims provision</i>		
Estimated gross claims	-	8,967,170
Outstanding claims provision relating to risk transfer arrangement	156,605	-
Less: Estimated recoveries from savings accounts	-	(167,170)
Balance at end of year	156,605	8,800,000
Total outstanding risk claims provision		8,956,605

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 2019**

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; and
- Utilisation escalation has been provided for the impact of HIV/AIDS.

	2019	2018
The assumed percentages of claims outstanding at the end of the year:	%	%
- December	36%	39%
- November	11%	10%
- October	4%	6%
- September	2.0%	5.0%
- August and prior	1.0%	2.0%
	2019	2018
	R	R
Changes in the assumptions used will have the following impact:		
Effect of a 1% change in assumptions	833,679	1,004,729
Effect of a 2% change in assumptions	1,687,142	1,930,933
Effect of a 3% change in assumptions	2,561,921	2,880,323

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 2019**

9. RISK CONTRIBUTION INCOME

	2019	2018
	R	R
Gross contributions	236,559,291	225,069,726
Less: Medical Savings Account contributions *	(23,604,277)	(22,496,354)
	<u>212,955,014</u>	<u>202,573,372</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	182,251,508	182,821,562
Movement in outstanding risk claims provision	5,328,513	9,005,484
- (Over)/under provision in the prior year	(1,171,487)	205,484
- Provision for the current year	6,500,000	8,800,000
	<u>187,580,021</u>	<u>191,827,046</u>
Less:	22,799,484	22,028,848
- Medical Savings Account claims paid*	22,799,484	22,028,848
	<u>164,780,537</u>	<u>169,798,198</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	862,579	804,426
Movement in outstanding risk claims provision	-	156,605
- Provision for the current year	-	156,605
	<u>862,579</u>	<u>961,031</u>
	<u>165,643,116</u>	<u>170,759,229</u>

11. MANAGED CARE: MANAGEMENT SERVICES

Disease risk management	1,331,715	1,356,176
Medicine risk management	416,161	501,341
Hospital management programme	1,248,483	1,412,760
Managed Care Network Services and Risk management	1,165,251	542,294
Prescribed minimum benefit programme	-	156,199
Oncology management	-	94,678
Pharmacy benefit management	-	166,188
HIV risk management	-	958,268
Pharmacy network	-	97,785
Homecare plus	-	89,010
	<u>4,161,610</u>	<u>5,374,699</u>

ENGEN MEDICAL BENEFIT FUND**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2019**

12. NET EXPENSE/(INCOME) ON RISK TRANSFER ARRANGEMENT	2019	2018
	R	R
Premiums paid	1,102,344	909,767
Recoveries received (Note 10)	(862,579)	(961,031)
	<u>239,765</u>	<u>(51,264)</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	9,710,561	9,580,299
Audit fees - current year	401,342	428,046
Bank charges	74,568	39,733
Consulting fees	1,077,318	669,119
Council for Medical Schemes - levies	131,826	120,525
Debt collection fees	106	-
Health quality assessment	37,464	35,677
Membership fees	45,272	41,941
PI/Fidelity/Trustees and Officers insurance	39,880	39,600
Printing, postage, stationery and communication services	10,971	74,743
Rule registration costs	1,375	1,210
	<u>11,530,683</u>	<u>11,030,893</u>

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

Members' and service providers' portions that are not recoverable	(108,713)	(72,169)
Movement in provision	81,299	(19,170)
Written off	(190,012)	(52,999)
	<u>(108,713)</u>	<u>(72,169)</u>

15. INVESTMENT INCOME

Interest received		
- Interest on fair value through profit or loss investments	8,904,370	7,271,124
- Interest on cash and cash equivalents	482,116	3,128,205
Dividends earned on fair value through profit or loss investments	2,449,496	1,614,972
Realised gain/(loss) on investments	20,871,100	(1,304,405)
Unrealised loss on investments	(16,666,172)	(3,842,190)
	<u>16,040,910</u>	<u>6,867,706</u>

The Fund disinvested from the Coronation Medical Aid Portfolio and invested in the Prudential Medical Aid Fund. The movement in the realised gain and unrealised loss in the 2019 financial year is as a result of this transaction.

ENGEN MEDICAL BENEFIT FUND**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2019**

	2019	2018
	R	R
16 SUNDRY INCOME		
Stale cheques older than 3 years (reversed)/written back	(3,286)	136,459
	<u>(3,286)</u>	<u>136,459</u>
17 ASSET MANAGEMENT FEES		
Prescient Investment Management (Pty) Ltd	271,161	229,458
Coronation Asset Management (Pty) Ltd	(30,694)	267,532
Prudential Investment Managers (South Africa) (Pty) Ltd	319,207	-
	<u>559,674</u>	<u>496,990</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 2019, the total cover was R10 million (2018: R10 million).

19 EVENTS AFTER REPORTING DATE

Subsequent to the reporting date the President of South Africa declared a national state of disaster as a result of the global COVID-19 pandemic on 15 March 2020. Even though South Africa is in the early stage of the outbreak, there are many uncertainties about the potential impact of COVID-19 on the Fund and its members. The actuaries has considered various possible scenarios to assess the potential impact of COVID-19. The results of the scenarios indicate that the Fund's going concern status is not at risk. The Fund's strong financial position and reserve levels allows the Fund to absorb the potential negative impact of COVID-19 with no impact on the Funds's ability to pay claims as they arise.

20 CONTINGENT ASSET

At 31 December 2018, the Fund had a contingent asset to the value of R3,175,648. This related to the Road Accident Fund (the "RAF") claims submitted, where there was no assurance of recovery and the duration of the recovery period. This contingent asset was sold to Discovery Third Party Recovery Services (DTPRS) during 2019 and therefore no contingent asset exists at 31 December 2019.

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 2019****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

	2019	2018
	R	R
Statement of comprehensive income		
Contributions received	730,115	829,470
Claims incurred	602,469	1,093,863
Interest earned on Medical Savings Account trust monies	7,956	2,790
Remuneration paid to Medical advisor - Dr Davidson	274,044	258,084
Statement of financial position		
Medical Savings Account trust monies	126,222	118,595

The Principal Officer, Trustees and committee members did not receive any remuneration from the Fund for the years ended 2019 and 2018.

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	9,710,561	4,519,450
Managed care fees - Discovery Health (Pty) Ltd	4,161,610	1,936,906
Recoveries received from DTPRS	530,943	-
Consulting fees - Alexander Forbes Health (Pty) Ltd	411,930	411,035
Administration fees - MMI Health (Pty) Ltd	-	4,870,605
Managed care fees - MMI Health (Pty) Ltd	-	3,437,793

Statement of financial position

Administration fees - Discovery Health (Pty) Ltd	813,663	794,762
Managed care fees - Discovery Health (Pty) Ltd	348,707	340,612
Consulting fees - Alexander Forbes Health (Pty) Ltd	34,328	34,328
Administration fees - MMI Health (Pty) Ltd	-	190,244

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 2019

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 2019

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 2019**
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:

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)
Total	9,376,421	51,444,046	4,649,635	27,227,318	67,809,565	6,088,964	165,643,116

2018

Age grouping	General Practitioners	Specialists	Dentistry	Medicines	Hospital	Optical	Total
0 -25 insured	1,390,538	5,211,925	1,023,174	2,560,557	6,787,557	449,210	17,422,961
26 - 35 insured	902,376	3,215,701	363,913	855,605	4,008,940	517,219	9,863,755
36 - 50 insured	1,954,543	8,697,249	878,875	3,811,664	8,451,778	1,091,280	24,885,391
51 - 64 insured	2,072,800	12,915,085	1,260,774	7,458,399	15,493,266	1,416,337	40,616,661
>65 insured	2,170,606	24,592,577	1,028,873	10,273,643	33,398,531	2,088,497	73,552,728
ER24	-	-	-	-	-	-	909,767
One Care	-	-	-	-	-	-	158,191
Discount received	-	-	-	-	-	-	(74,560)
Third party claims recoveries	-	-	-	-	-	-	(445,174)
Movement in provision	-	-	-	-	-	-	3,869,509
Total	8,490,863	54,632,538	4,555,609	24,959,868	68,140,073	5,562,545	170,759,229

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 2019**
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:

	Change in liability	Change in liability
	2019	2018
	R	R
Effect of a 1% change in assumptions	833,679	1,004,729
Effect of a 2% change in assumptions	1,687,142	1,930,933
Effect of a 3% change in assumptions	2,561,921	2,880,323

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

For the year ended 31 December 2019	Financial assets at fair value through profit or loss	Loans and receivables at amortised cost	Insurance receivables and payables	Total carrying amount
	R	R	R	R
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
Medical Savings Account trust monies	20,636,553	-	-	20,636,553
	240,380,593	8,070,255	2,708,704	251,159,552
For the year ended 31 December 2018				
Investments: non-current assets	125,408,188	-	-	125,408,188
Investments: current assets	44,641,371	-	-	44,641,371
Cash and cash equivalents	-	10,564,863	-	10,564,863
Accounts receivable	-	465,569	468,209	933,778
Outstanding claims provision	-	-	156,605	156,605
Accounts payable	-	1,964,967	3,965,023	5,929,990
Medical Savings Account trust monies	18,462,986	-	-	18,462,986
	188,512,545	12,995,399	4,589,837	206,097,782

ENGEN MEDICAL BENEFIT FUND

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2019**

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 38% (2018: 37%) 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:

	Up to 1 Month	1 - 3 Months	4 - 12 Months	Total
2019		R	R	R
Liabilities				
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)
Medical Savings Account trust monies	-	-	(20,636,553)	(20,636,553)
	(7,537,814)	(1,686,221)	(21,696,075)	(30,920,110)
Assets				
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
Excess liquidity	37,865,815	15,420,652	9,997,345	63,283,812

	Up to 1 Month	1 - 3 Months	4 - 12 Months	Total
2018		R	R	R
Liabilities				
Outstanding risk claims provision	(3,579,178)	(2,323,510)	(3,053,917)	(8,956,605)
Insurance payables	(3,965,023)	-	-	(3,965,023)
Other payables	(1,964,968)	-	-	(1,964,968)
Personal medical savings account trust monies	-	-	(18,462,986)	(18,462,986)
	(9,509,169)	(2,323,510)	(21,516,904)	(33,349,582)
Assets				
Fair value through profit or loss: current assets	4,575,433	15,473,843	24,592,095	44,641,371
Cash and cash equivalents	10,564,863	-	-	10,564,863
Medical Savings Account trust monies	19,627,440	-	-	19,627,440
Excess liquidity	25,258,567	13,150,333	3,075,191	41,484,092

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 2019

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. 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.

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

31 December 2018	Fully performing	Past due	Impaired	Total carrying amount
Insurance receivables				
- Contributions outstanding	-	-	-	-
- Amount owing from suppliers and members	199,978	111,626	497,707	809,311
- Risk transfer arrangements	156,605	-	-	156,605
Accrued interest	465,569	-	-	465,569
Total	822,152	111,626	497,707	1,431,485

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

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

31 December 2018	30 days	60 days	90 days	Total
Contributions outstanding	-	-	-	-
Amount owing from suppliers and members	59,998	51,628	-	111,626
Total	59,998	51,628	-	111,626

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
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24. FINANCIAL RISK MANAGEMENT REPORT (continued)
Credit risk (continued)

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by Fitch ratings agency.

Fitch National Long-Term Rating

Financial Institution	2019 R	2018 R	Credit Rating	
			2019	2018
First National Bank	5,844,774	10,564,863	BBB-	BB+

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 77.46% (2018: 81.75%) of its investments in interest-bearing instruments and 22.54% (2018: 18.25%) 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:

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
Total	77,392,969	66,691,214	50,591,193	194,675,376

2018	Up to 1 Month	1 - 12 Months	Over 1 year	Total
Fair value through profit or loss: non-current assets	8,332,226	28,054,906	56,063,703	92,450,835
Fair value through profit or loss: current assets	4,575,433	40,065,938	-	44,641,371
Cash and cash equivalents	10,564,863	-	-	10,564,863
Medical Savings Account trust monies	19,627,440	-	-	19,627,440
Total	43,099,962	68,120,844	56,063,703	167,284,508

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 2019

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
2019				
Fair value through profit or loss investments	151,329,627	150,158,790	150,448,874	151,136,370

	Fair value	5% strengthening in ZAR	10% strengthening in ZAR	20% strengthening in ZAR
	R	R	R	R
2018				
Fair value through profit or loss investments	125,408,188	125,408,188	125,408,188	125,408,188

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
2019				
Fair value through profit or loss investments	151,329,627	147,659,962	144,445,307	139,500,620

	Fair value	1% increase in interest rate	2.5% increase in interest rate	5% increase in interest rate
	R	R	R	R
2018				
Fair value through profit or loss investments	125,408,188	124,418,964	125,380,453	125,361,963

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
2019				
Fair value through profit or loss investments	151,329,627	147,788,971	145,675,610	141,554,781

	Fair value	5% decrease in equity market	10% decrease in equity market	20% decrease in equity market
	R	R	R	R
2018				
Fair value through profit or loss investments	125,408,188	126,514,873	127,040,250	127,689,998

ENGEN MEDICAL BENEFIT FUND

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2019**

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:

	Carrying amount		Fair value	
	2019	2018	2019	2018
	R	R	R	R
<i>Financial assets</i>				
Fair value through profit or loss investments:				
non-current assets	151,329,627	125,408,188	151,329,627	125,408,188
Fair value through profit or loss investments:				
current assets	68,414,413	44,641,371	68,414,413	44,641,371
Cash and cash equivalents	5,844,774	10,564,863	5,844,774	10,564,863
Trade and other receivables	703,828	933,778	703,828	933,778
- Loans and receivables	573,914	465,569	573,914	465,569
- Insurance receivables	129,914	468,209	129,914	468,209
<i>Financial liabilities</i>				
Outstanding claims provision	6,500,000	8,956,605	6,500,000	8,956,605
Trade and other payables	3,783,557	5,929,991	3,783,557	5,929,991
- Insurance payables	2,162,381	3,965,023	2,162,381	3,965,023
- Other payables	1,621,176	1,964,968	1,621,176	1,964,968
- Medical Savings Account liability	20,636,553	18,462,986	20,636,553	18,462,986

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
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24. FINANCIAL RISK MANAGEMENT REPORT (continued)

Fair values (continue)

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

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

As at 31 December 2018	Level 1 R	Level 2 R	Level 3 R	Reclassification R
Cash	26,584,040	-	-	-
Equities	25,095,614	-	-	-
Bonds	-	65,866,795	-	-
Listed property	7,861,739	-	-	-
Total	59,541,393	65,866,795	-	-

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. 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 2019****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 investments in certain pooled portfolios and collective investment schemes (the Funds) as listed in the table below. The exposure the Fund has to these funds is listed in the table below in terms of Regulation 30 to the Act. The Fund's maximum exposure is limited to the total fair value of its investments in the funds.

Fund	as at 31 December 2019		as at 31 December 2018	
	Fair value	% Exposure in terms of Regulation 30	Fair value	% Exposure in terms of Regulation 30
Prescient Positive Return Fund	76,437,941	31.0%	60,893,668	30.3%
Coronation Med Aid Untaxed	-	-	59,187,714	29.4%
Prudential Medical Aid Fund	74,891,686	30.4%	-	-

ENGEN MEDICAL BENEFIT FUND**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2019****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 Fund's policy is to keep a solvency ratio of between 40% - 60%. 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 2018 to 31 December 2019.

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 90.11% at 31 December 2019 and 66.19% at 31 December 2018. 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 has been granted exemption from the Council for Medical Schemes in terms of section 35(8) and is therefore allowed to hold these shares.

ENGEN MEDICAL BENEFIT FUND

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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 Prescribed minimum benefits

Nature and impact

Section 29(1)(o) and Regulation 8 provide the scope and level of minimum benefits that the Fund must provide to members and dependents. During the year under review there were isolated instances where the Fund did not pay claims in accordance with the scope and level of minimum benefits.

Causes for the failure

The complexity of prescribed minimum benefits created differences in interpretation.

Corrective Action

The Fund is aligning its interpretation of prescribed minimum benefits with CMS's interpretation, and affected claims are being reprocessed to ensure correct payment.

26.4 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 limited number of members and providers chose to receive payment once a month, which caused instances where payment took more than 30 days. 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 90.11%.
- Available cash and investments at the end of the year amounted to R225,588,814.