

**ENGEN MEDICAL BENEFIT FUND**  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 December 2022**

**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 2022, and the statement of comprehensive income, statement of changes in funds and reserves and statement of cash flows for the year then ended and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Medical Schemes Act 131 of 1998 of South Africa (the Act). In addition, the Trustees are responsible for preparing the report of the Board of Trustees and statement of corporate governance by the Board of trustees.

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

The Trustees are satisfied that the information contained in the annual financial statements fairly presents the results of operations for the year and the financial position of the Fund at year-end. The Trustees also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the annual financial 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 auditor, Harris Dowden & Fontaine, are responsible for auditing the annual financial statements in terms of International Standards on Auditing and their report is presented on pages 11 to 15.

The annual financial statements were approved by the Board of Trustees on 17 April 2023 and signed on its behalf:



.....  
 S Moroka-Mosia  
 Chairperson



.....  
 N Rabochene  
 Trustee



.....  
 R Marchant  
 Principal Officer

17 April 2023

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

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

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

**BOARD OF TRUSTEES**

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

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

**INTERNAL CONTROL**

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

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



.....  
 S Moroka-Mosia  
 Chairperson



.....  
 N Rabochene  
 Trustee



.....  
 R Marchant  
 Principal Officer

17 April 2023

## ENGEN MEDICAL BENEFIT FUND

### REPORT OF THE BOARD OF TRUSTEES for the year ended 31 December 2022

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

Registration Number: 1572

#### 1. MANAGEMENT

##### 1.1 Board of Trustees in office during the year under review

###### Appointed members

Ms S Moroka-Mosia - Chairperson	Employer representative
Ms D Mokotjo	Employer representative
Ms N Ngema	Employer representative
Ms L Shaw	Employer representative
Mr O Villo	Employer representative

###### Elected members

Mr S Abrahams	Member representative	(Term ended: 30 June 2022)
Ms A Bennetts	Member representative	
Mr D Cassidy	Member representative	(Appointed: 1 July 2022)
Dr A Gray	Member representative	(Term ended: 30 June 2022)
Ms G King	Member representative	
Ms N Rabochene	Member representative	
Mr M Tshabalala	Member representative	(Appointed: 1 July 2022)

###### Alternate trustee

Ms B Ndlovu	Alternate employer trustee
Ms A Nkomo	Alternate member trustee

The Board of Trustees is assisted by:

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

Mr R Marchant	
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

##### 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 2022

#### 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

#### 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

M&G Investments  
Seventh Floor  
Protea Place  
40 Dreyer Street  
Claremont  
7708

P O Box 44813  
Claremont  
7735

Sanlam Investment Managers  
55 Willie van Schoor Avenue  
Bellville  
7530

Private Bag X8  
Tygervally  
7536

#### 1.7 Investment Consultants

Momentum Consultants and Actuaries  
269 West Avenue  
Centurion  
0157

P O Box 7400  
Centurion  
0046

#### 1.8 Actuary

Alexander Forbes Health (Pty) Ltd  
40 Dorp Street  
Stellenbosch  
7599

PO Box 700  
Stellenbosch  
7600

#### 1.9 Auditor (appointed: 27 June 2022)

(Previous audit firm: PricewaterhouseCoopers inc.)

Harris Dowden & Fontaine  
7 Pam Road  
Morningside  
Benmore  
2057

P O Box 651129  
Benmore  
2010

## ENGEN MEDICAL BENEFIT FUND

### REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2022

#### 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 accrued at an average rate of 5.90% (2021: 4.60%).

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 arrangements

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. The Fund also entered into a risk transfer arrangement with Discovery Health (Pty) Ltd for the provision of services to beneficiaries on the Fund that are registered under the diabetes program.

#### 3. INVESTMENT STRATEGY OF THE FUND

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

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

The Investment Committee presently comprises of:

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

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

- 9 February 2022;
- 31 May 2022;
- 30 August 2022; and
- 2 November 2022.

## ENGEN MEDICAL BENEFIT FUND

### REPORT OF THE BOARD OF TRUSTEES for the year ended 31 December 2022

#### 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	2022	2021
Average number of members during the accounting period	3,132	3,297
Number of members at 31 December	3,109	3,203
Average number of beneficiaries during the accounting period	6,088	6,451
Number of beneficiaries at 31 December	5,991	6,265
Dependant ratio	0.93	0.96
Number of new members	129	32
Number of members leaving	223	254
Average age of beneficiaries for the accounting period	41.97	41.15
Proportion of lives over the age of 65	20.15%	19.06%
Average net contribution per member per month (R)	5,449	5,275
Average net contribution per beneficiary per month (R)	2,803	2,696
Relevant healthcare expenditure as a percentage of net contributions (%)	96.88%	91.60%
Non-healthcare expenses as a percentage of net contributions (%)	6.01%	5.78%
Non-healthcare expenses per beneficiary per month (R)	169	156
Average healthcare management expense per member per month (R)	115	109
Average healthcare management expense per beneficiary per month (R)	60	57
Managed care: management services as a percentage of gross contributions	1.89%	1.86%
Amount paid to administrators (R)	10,054,618	10,066,263
Accumulated funds per member at 31 December (R)	104,985	99,113
Return on investments	4.60%	13.70%
Reserves per beneficiary (R)	54,482	50,672

#### 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 2022

#### 5.3 Accumulated funds ratio

	2022 R	2021 R
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per statement of financial position	326,399,301	317,457,939
Less: Unrealised gains on investments **	(32,632,326)	(33,213,013)
Accumulated funds per Regulation 29	293,766,975	284,244,926
Gross contributions	227,532,169	231,868,255
Accumulated funds ratio	129.11%	122.59%
<b>** Cumulative net gains on re-measurement to fair value are calculated as follows:</b>		
Net cumulative gains opening balance at the beginning of the year	33,213,013	4,373,148
Movement in unrealised gains on re-measurement of financial instruments to fair value included in accumulated funds	(580,687)	28,839,866
<b>Cumulative net gain on re-measurement to fair value of investments included in accumulated funds</b>	<b>32,632,326</b>	<b>33,213,014</b>

#### 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

On 9 February 2023 Petronas announced that it had taken the decision, subject to regulatory approvals and fulfilment of conditions precedent, to sell its entire shareholding in Engen Limited to Vivo Energy Investments BV, a subsidiary of the Vitol Group.

The Trustees will monitor the outcomes of the transaction carefully and assess any impact it may have on the Fund.

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

### 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 seven 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:

- 6 April 2022; and
- 10 November 2022.

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

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

**ENGEN MEDICAL BENEFIT FUND****REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2022****8. AUDIT COMMITTEE (continued)**

At 31 December 2022, the Audit Committee comprised of:

Ms S Koen	Independent	(Chairperson)
Mr S Abrahams	Independent	(Appointed: 6 September 2022)
Ms L Prins	Independent	
Ms F Ngcwabe	Independent	
Mr N Sithebe	Independent	
Ms N Ngema	Trustee	
Ms N Rabochene	Trustee	
Mr R Marchant	Principal Officer (ex Officio)	

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

In accordance with the Rules, the Fund has insurance to cover these risks. On 31 December 2022, the total cover was R10 million (2021: R10 million).

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

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

<u>Trustee / Sub Committee member</u>	<u>Board meetings</u>		<u>Audit Committee meetings</u>		<u>Investment Committee meetings</u>	
	<u>A</u>	<u>B</u>	<u>A</u>	<u>B</u>	<u>A</u>	<u>B</u>
Ms S Moroka-Mosia - Chairperson	4	4	2	1		
Mr S Abrahams *	4	2	1	-	4	3
Ms A Bennetts	4	4				
Mr D Cassidy *	2	2			2	1
Dr A Gray *	2	2				
Ms G King	4	3				
Ms D Mokotjo	4	3				
Ms N Ngema	4	4	2	2		
Ms L Shaw	4	3			4	4
Ms N Rabochene	4	3	2	2		
Mr M Tshabalala *	2	1				
Mr O Villo	4	4				
Ms S Koen			2	2		
Ms L Prins			2	2		
Mr N Sithebe			2	1	4	3
Ms F Ngcwabe			2	1		
Ms B Ndlovu (alternate)	4	3				
Ms A Nkomo (alternate)	4	3				
Mr A van Niekerk					4	4
Mr R Marchant	4	4	2	2	4	4

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

**B** - Actual number of meetings attended

\* Appointed/resigned during the year

**11. GOING CONCERN**

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

- The reserve ratio at the end of the year was 129.11%;
- Available cash and investments at the end of the year amounted to R332,791,278;
- Actuarial forecast for the next 5 years.

## ENGEN MEDICAL BENEFIT FUND

### REPORT OF THE BOARD OF TRUSTEES for the year ended 31 December 2022

#### 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 indirect investments in Discovery Holdings 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 applies annually for exemption from the Council for Medical Schemes in terms of section 35(8) in order to hold these shares. Exemption was granted until 30 November 2025.

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

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

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

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

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

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

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

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

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

In terms of Section 59(2) and Regulation 6(2) of the Act a medical scheme shall pay a member or supplier of services any benefit owing to that member or supplier within 30 days of receipt of the medical claim. A limited number of exceptions were noted where settlement took longer than 30 days from receipt.

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

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

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

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

##### 12.4 Sustainability of the Fund

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

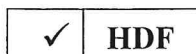
In terms of section 33(2) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound. At 31 December 2022 the Fund incurred a net healthcare deficit of R5.9m (2021: net healthcare surplus of R5.5m). After investment income the Fund recorded a surplus of R8.9m (2021: surplus of R43.3m) and the Trustees are comfortable that the results are within the pricing strategy of the Fund.

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

The Fund experience higher than expected claims.

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

The Board of Trustees carefully monitors the Fund's performance with the assistance of the Fund's actuaries. The Trustees are comfortable that the Fund is in a sound financial position as at 31 December 2022.



**HARRIS DOWDEN & FONTAINE** CHARTERED ACCOUNTANTS (SA)

IRBA Registration No: 943703

7 Pam Road, Morningside, 2196

P.O. Box 651129, Benmore, 2010

Telephone: (011) 884-7373 Fax: (011) 784-6992

E-Mail [hdf@icon.co.za](mailto:hdf@icon.co.za)

R.T. Harris, B.J. Dowden, C.L.I. Fontaine

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## **Independent Auditor's Report**

To the Members of Engen Medical Benefit Fund

### **Report on the audit of the Financial Statements For the year ended 31 December 2022**

#### ***Opinion***

We have audited the financial statements of Engen Medical Benefit Fund (the Fund), set out on pages 14 to 46, which comprise the statement of financial position as at 31 December 2022 and the statement of comprehensive income, the statement of changes in members' funds and reserves and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

#### ***Basis for Opinion***

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

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

#### ***Independence***

We are independent of the Fund in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Key Audit Matters***

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

#### ***1. Outstanding claims provision:***

International Financial Reporting Standards (IFRS) requires the Fund to make provision for all future cash outflows for which a past event has occurred.

As disclosed in Note 8 to the annual financial statements, the carrying amount of the Outstanding Claims Provision ("IBNR") at year end was R4,863,000 (2021: R6,554,700). The determination of the IBNR requires the Fund's Trustees to make assumptions and significant judgement in the valuation thereof, which is determined with reference to an estimation of the ultimate cost of settling all claims incurred but not yet reported at the Statement of Financial Position date.

How the matter was addressed in the audit:

In evaluating the valuation of the IBNR, we audited the calculations approved by the Board of Trustees and performed various procedures including the following:

- Testing the Fund's controls relating to the preparation of the IBNR calculation;
- Testing the integrity of the information used in the calculation of the IBNR by performing substantive procedures, on a sample basis, on the completeness and accuracy of the claims data used in calculating the IBNR;
- Performance of an independent estimate of the IBNR using substantive analytical procedures that involved historical claims data and trends and comparing the estimate to the Fund's IBNR;
- Performance of tests of details on the current year IBNR including testing actual claims experienced subsequent to year end and to as close as possible to audit completion date; and
- Performance of a retrospective review of the IBNR raised in the 2021 financial year based on actual claims paid in 2022 to verify the assumptions applied to determine the IBNR are reasonable.

The assumptions applied in the IBNR are appropriate and we are satisfied that the movement of the IBNR in the Statement of Comprehensive Income and the related disclosure of the IBNR balance, in the Statement of Financial Position and assumptions are appropriate.

We engage with management around the rationale for any adjustments or decisions over and above the numeric calculation.

#### ***2. Claims and contributions:***

Claims and contributions are significant classes of transactions in the annual financial statements of the Fund. These are also subject to significant risk of fraud or material misstatement. The Fund places significant reliance on the system of internal controls and various analytical and system based checks to ensure that all claims and contributions are valid and accurate.

How the matter was addressed in the audit:

During the audit the claims system is subjected to various tests of controls and exception reports are reviewed.

### 3. *Risk Transfer Arrangement:*

The Fund entered into two risk transfer arrangements for the duration of the year, which obliged the Capitor to compensate providers for costs incurred by members of the Fund, in the case that an insured event occurred.

How the matter was addressed in the audit:

We tested the accuracy of the risk transfer arrangement fees expense, by agreeing the number of members and rates applied in the calculations, to member records and the service level agreement with the Capitors. No inconsistencies were noted.

### ***Other Information***

The Fund's trustees are responsible for the other information. The other information comprises the Statement of Responsibility by the Board of Trustees, and the Report of the Board of Trustees. The other information does not include the financial statements and our auditor's report thereon.

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

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

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

### ***Responsibilities of the Fund's Trustees for the Financial Statements***

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

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

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

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

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

#### ***Audit Tenure***

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that this is the first year of our appointment as the auditor of Engen Medical Benefit Fund.

The engagement partner is Charles Fontaine.



HARRIS DOWDEN & FONTAINE  
Registered Auditors  
Per: C.L.I. FONTAINE

Sandton  
17 April 2023



**ENGEN MEDICAL BENEFIT FUND**
**STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2022**

	Notes	2022 R	2021 R
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets at fair value through profit or loss	2	270,910,968	259,527,458
<b>Current assets</b>			
Financial assets at fair value through profit or loss	2.1	89,580,054	92,874,442
Trade and other receivables	3	55,401,366	49,520,946
Cash and cash equivalents	4	2,189,789	2,084,603
Investment of Medical Savings Account monies	5	6,478,945	17,125,380
		25,509,954	24,143,513
<b>Total assets</b>		<b>360,491,022</b>	<b>352,401,900</b>
<b>FUNDS AND LIABILITIES</b>			
<b>Members' funds</b>			
Accumulated funds		326,399,301	317,457,939
		326,399,301	317,457,939
<b>Current liabilities</b>			
Medical Savings Account liability	6	34,091,721	34,943,961
Trade and other payables	7	24,798,161	24,486,155
Outstanding claims provision	8	4,430,560	3,903,106
		4,863,000	6,554,700
<b>Total funds and liabilities</b>		<b>360,491,022</b>	<b>352,401,900</b>

**ENGEN MEDICAL BENEFIT FUND**
**STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2022**

	Notes	2022 R	2021 R
<b>Risk contribution income</b>	9	204,803,653	208,686,614
<b>Relevant healthcare expenditure</b>		(198,422,328)	(191,157,382)
Net claims incurred		(198,756,228)	(190,995,205)
Risk claims incurred	10	(194,771,858)	(187,077,899)
Managed care: management services	11	(4,309,498)	(4,314,113)
Third party claim recoveries		325,128	396,807
Net income/(expense) on risk transfer arrangement	12	333,900	(162,177)
Risk transfer arrangement fee		(2,005,693)	(1,142,598)
Recoveries received on risk transfer arrangement		2,339,593	980,421
<b>Gross healthcare result</b>		6,381,325	17,529,232
Administration expenditure	13	(12,022,221)	(11,850,879)
Net impairment losses on healthcare receivables	14	(295,179)	(209,306)
<b>Net healthcare result</b>		(5,936,075)	5,469,047
<b>Other income</b>		17,647,276	40,078,111
Investment income	15	16,313,106	39,027,608
Interest on Medical Savings Account trust monies		1,334,170	1,050,503
<b>Other expenditure</b>		(2,769,839)	(2,228,301)
Asset management fees	16	(1,435,669)	(1,177,798)
Interest paid on Medical Savings Account trust monies		(1,334,170)	(1,050,503)
<b>Net surplus for the year</b>		<b>8,941,362</b>	<b>43,318,857</b>
<b>Total comprehensive income for the year</b>		<b>8,941,362</b>	<b>43,318,857</b>

**ENGEN MEDICAL BENEFIT FUND****STATEMENT OF CHANGES IN FUNDS AND RESERVES**  
**for the year ended 31 December 2022**

	<b>Accumulated Funds/Total Members Funds R</b>
<b>Balance as at 1 January 2021</b>	274,139,082
Net surplus for the year	43,318,857
<b>Balance as at 31 December 2021</b>	<u>317,457,939</u>
Net surplus for the year	8,941,362
<b>Balance as at 31 December 2022</b>	<u>326,399,301</u>

**ENGEN MEDICAL BENEFIT FUND**
**STATEMENT OF CASH FLOWS**  
 for the year ended 31 December 2022

	Notes	2022 R	2021 R
<b>Cash flows from operating activities</b>			
Cash receipts from members and providers		227,960,220	232,088,328
Cash receipts from members – contributions		227,830,643	231,851,608
Cash receipts from members and providers – other		129,577	236,720
Cash paid to providers and members		(236,158,752)	(228,443,418)
Cash paid to providers and members – claims		(222,576,393)	(215,129,159)
Cash paid to service providers – non-healthcare expenditure		(12,238,949)	(11,920,742)
Cash paid to members – savings plan refunds		(1,343,410)	(1,393,517)
<b>Cash (used in)/ generated from operations</b>		<b>(8,198,532)</b>	<b>3,644,910</b>
Interest received		1,918,538	1,361,872
<b>Net cash flow from operating activities</b>		<b>(6,279,994)</b>	<b>5,006,782</b>
<b>Cash flows from investing activities</b>			
Acquisitions of investments		(174,000,000)	(138,000,000)
Proceeds on disposals of investments		171,000,000	137,000,000
<b>Net cash flows from investing activities</b>		<b>(3,000,000)</b>	<b>(1,000,000)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(9,279,994)</b>	<b>4,006,782</b>
Cash and cash equivalents at the beginning of the year		41,268,893	37,262,111
<b>Cash and cash equivalents at the end of the year</b>		<b>31,988,899</b>	<b>41,268,893</b>
Current accounts	4	6,478,945	17,125,380
Medical savings account funds	5	25,509,954	24,143,513

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2022

#### 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.

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 2022 and relevant to the Fund:

No new standards, amendments and interpretations were effective and relevant to the Fund in 2022.

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

Executive summary	Effective date
<p>IFRS 17 - Insurance contracts - The Standard was issued in May 2017 and supersedes IFRS 4 'Insurance Contracts'. The Standard creates one accounting model for all insurance contracts and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The Standard requires insurance contracts to be measured using updated estimates and assumptions that reflect the timing of cash flows and takes into account any uncertainty relating to insurance contracts. In accordance with the transition requirements outlined in IFRS 17, management will apply IFRS 17 retrospectively, meaning that the 2023 financial statements will be presented as if IFRS 17 has always applied. The date of initial application of IFRS 17 will therefore be 1 January 2022, being the start of the comparative period.</p> <p>The Fund has assessed the requirements of the standard and agreed a project plan to implement the standard. The coverage period for the Fund's contracts is one year or less allowing for the premium allocation approach to be applied, resulting in similar treatment to the current accounting. The most notable exceptions relate to the accounting for Personal Medical Savings Accounts, the treatment of onerous contracts and changes to disclosures in the financial statements. The Fund resolved that the level of aggregation will be on portfolio level as the Fund only has one Plan. The Fund acknowledges that there are onerous contracts due to the strategic use of reserves as part of the Fund's benefit design process. The Fund, its administrator and advisors are in final stages of quantifying the impact of IFRS 17.</p>	1 January 2023

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2022

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

##### 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.

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 gives 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 gives 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)

A 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.

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2022

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

##### *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.

##### **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 2022

#### 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 2022

#### 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 2022

#### 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 2022**

	<b>2022</b>	<b>2021</b>
	<b>R</b>	<b>R</b>
<b>2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
<b>Non-current assets</b>		
Opening balance	259,527,458	181,854,014
Withdrawals	(50,000,000)	(21,000,000)
Contribution	50,000,000	64,000,000
Capitalised interest	5,267,620	4,234,417
Capitalised dividends	841,050	746,250
Capitalised net realised gains/(losses)	7,291,196	2,030,710
Cost incurred in managing investments	(1,435,669)	(1,177,797)
Unrealised (losses)/gains	(580,687)	28,839,864
Fair value at the end of the year	<u>270,910,968</u>	<u>259,527,458</u>

The investments included above represent investments which are administered by Prescient Investment Management (Pty) Ltd, M & G Investment Managers and Sanlam Investment Managers. The fair values of these investments are based on market values at 31 December 2022. A register of investments is available for inspection at the registered office of the Fund.

The look-through fair value investments comprise:

- Bills & bonds	120,348,244	153,478,723
- Listed property	9,169,857	14,128,371
- Preference & ordinary shares	77,416,421	83,675,702
- Cash and call account	63,976,446	8,244,662
	<u>270,910,968</u>	<u>259,527,458</u>

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

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

Money market	55,401,366	49,520,946
Fair value at the end of the year	<u>55,401,366</u>	<u>49,520,946</u>

The weighted effective interest rate on the money market account at 31 December 2022 was 5.90% (2021: 4.60%).

**ENGEN MEDICAL BENEFIT FUND****NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2022****3. TRADE AND OTHER RECEIVABLES**

	<b>2022</b>	<b>2021</b>
	<b>R</b>	<b>R</b>
<b>Insurance receivables</b>		
Contributions outstanding	1,194,318	1,492,792
Amounts owing from suppliers and members	649,723	516,746
	<u>1,844,041</u>	<u>2,009,538</u>
Less: Provision for impairment losses	<u>(329,722)</u>	<u>(339,244)</u>
	1,514,319	1,670,294
<b>Other receivables</b>		
Accrued interest	517,215	318,627
Forensic recoveries	<u>158,255</u>	<u>95,682</u>
	675,470	414,309
	<u><u>2,189,789</u></u>	<u><u>2,084,603</u></u>

**4. CASH AND CASH EQUIVALENTS**

Current accounts	<u>6,478,945</u>	<u>17,125,380</u>
	<u><u>6,478,945</u></u>	<u><u>17,125,380</u></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	<u>25,509,954</u>	<u>24,143,513</u>
	<u><u>25,509,954</u></u>	<u><u>24,143,513</u></u>

The average interest rate on Medical Savings Account monies was 5.90% (2021: 4.60%).

# ENGEN MEDICAL BENEFIT FUND

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2022

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

	2022 R	2021 R
Balance on Medical Savings Account liability at the beginning of the year	24,486,155	24,119,788
Less: Advances on Medical Savings Accounts at the beginning of the year	-	-
Balance on Medical Savings Account liability at the beginning of the year	24,486,155	24,119,788
Add: Medical Savings Account contribution received/receivable for the year	22,728,516	23,181,641
Interest earned on Medical Savings Account monies invested	1,334,170	1,050,503
Less: Claims paid on behalf of members	(22,417,464)	(22,486,996)
Refunds on death or resignations	(1,333,216)	(1,378,781)
	24,798,161	24,486,155
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	24,798,161	24,486,155

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 2022, but not recorded, will amount to R50,507 (2021: R47,428) (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

	2022 R	2021 R
<b>Insurance payables</b>	2,446,278	2,135,551
Reported claims not paid	2,446,278	2,135,551
<b>Other payables</b>	1,984,282	1,767,555
Accrued expenses	1,792,051	1,714,245
Sundry payables and provisions	192,231	53,310
	4,430,560	3,903,106
<b>Reported claims not paid</b>		
Balance at the beginning of the year	2,135,551	457,250
Movement for the year	310,727	1,678,301
Balance at the end of the year	2,446,278	2,135,551

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 2022

### 8. OUTSTANDING RISK CLAIMS PROVISION

	2022	2021
	R	R
Provision for outstanding risk claims	4,863,000	6,554,700
<i>Analysis of movements in outstanding risk claims</i>		
Balance at the beginning of the year	6,554,700	9,320,000
Payments in respect of the prior year	(6,523,633)	(9,299,782)
Over provision in respect of the prior year	31,067	20,218
Adjustment for the current year	4,831,933	6,534,482
Balance at the end of the year	4,863,000	6,554,700
<i>Analysis of outstanding risk claims provision</i>		
Estimated gross claims	4,913,507	6,602,128
Less: Estimated recoveries from Medical Savings Accounts	(50,507)	(47,428)
Balance at end of year	4,863,000	6,554,700

#### **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 to make a reliable best estimate of claims development, otherwise 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 2022

#### 8. OUTSTANDING CLAIMS PROVISION (continued)

##### Assumptions and sensitivities (continued)

##### *Process used to determine the assumptions (continued)*

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

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

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

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

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

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

	2022	2021
The assumed percentages of claims outstanding at the end of the year:	%	%
- December	21%	27%
- November	7%	8%
- October	3%	3%
- September	2%	2%
- August and prior	1%	1%
	2022	2021
Changes in the assumptions used will have the following impact:	R	R
Effect of a 1% change in assumptions	888,121	912,378
Effect of a 2% change in assumptions	1,796,496	1,845,187
Effect of a 3% change in assumptions	2,725,166	2,799,358

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 2022****9. RISK CONTRIBUTION INCOME**

	<b>2022</b>	<b>2021</b>
	<b>R</b>	<b>R</b>
Gross contributions	227,532,169	231,868,255
Less: Medical Savings Account contributions *	(22,728,516)	(23,181,641)
	<u>204,803,653</u>	<u>208,686,614</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	210,017,796	202,049,992
Movement in outstanding risk claims provision	4,831,933	6,534,482
- Over provision in the prior year	(31,067)	(20,218)
- Provision for the current year	4,863,000	6,554,700
	<u>214,849,729</u>	<u>208,584,474</u>
Less:	22,417,464	22,486,996
- Medical Savings Account claims paid*	<u>22,417,464</u>	<u>22,486,996</u>
	<u>192,432,265</u>	<u>186,097,478</u>

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

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

Current year claims in respect of risk transfer arrangement	<u>2,339,593</u>	<u>980,421</u>
	<u>194,771,858</u>	<u>187,077,899</u>

**11. MANAGED CARE: MANAGEMENT SERVICES**

Disease risk management	1,378,860	1,380,565
Medicine risk management	431,175	431,859
Hospital management programme	1,292,773	1,337,053
Managed Care Network Services and Risk management	1,206,689	1,164,636
	<u>4,309,498</u>	<u>4,314,113</u>

**12. NET (INCOME)/ EXPENSE ON RISK TRANSFER ARRANGEMENTS****Emergency transport (ER 24)**

Fees paid	1,089,855	1,142,598
Recoveries received (Note 10)	(1,249,142)	(980,421)
	<u>(159,287)</u>	<u>162,177</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.



**ENGEN MEDICAL BENEFIT FUND**
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2022**

<b>12. NET (INCOME)/EXPENSE ON RISK TRANSFER ARRANGEMENTS (c</b>	<b>2022</b>	<b>2021</b>
	<b>R</b>	<b>R</b>
<b>Diabetes Management Services (Discovery Health)</b>		
Fees paid	915,838	-
Recoveries received (Note 10)	(1,090,451)	-
	<u>(174,613)</u>	<u>-</u>

The Fund entered into a risk transfer arrangement with Discovery Health (Pty) Ltd. The agreement provides specialised diabetes and cardiometabolic management services for patients living with diabetes and with cardiometabolic conditions associated with diabetes.

Total net (income)/expense on risk transfer arrangements	<u>(333,900)</u>	<u>162,177</u>
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**13. ADMINISTRATION EXPENSES**

AGM cost	64,532	55,042
Administration fees (Note 13.1)	10,054,618	10,066,263
Audit fees	392,208	309,953
Bank charges	69,058	66,866
Consulting fees	1,109,339	1,064,623
Council for Medical Schemes - levies	142,334	152,769
Debt collection fees	1,074	2,657
Health quality assessment	44,185	42,734
Legal fees	955	-
Membership fees	48,557	49,712
PI/Fidelity/Trustees and Officers insurance	41,058	40,260
Printing, postage, stationery and communication services	54,303	-
	<u>12,022,221</u>	<u>11,850,879</u>

**13.1 Breakdown of Administration fees**

<b>Accredited services</b>		
Member record management	996,586	963,829
Contribution management	842,660	846,858
Claims management	1,061,002	1,066,179
Financial management	34,455	34,775
Information management and data control	1,720,150	1,728,490
Customer services	4,685,188	4,708,099
<b>Other services</b>		
Internal audit services	142,690	143,448
Forensic investigations and recoveries	177,895	178,619
Governance and compliance	28,463	28,453
<b>Additional services</b>		
Quality Management and Monitoring Services	134,077	134,754
Advanced Data Analytics	111,980	112,625
Digital Service Offering	41,197	41,493
Enhanced Service Offering	22,471	22,525
Enterprise risk management services	22,471	22,525
Legal Services	6,741	6,718
Product Innovation	26,592	26,873
	<u>10,054,618</u>	<u>10,066,263</u>

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

<i>Accounts receivable</i>		
Members' and service providers' portions that are not recoverable	(295,179)	(209,306)
Movement in provision	9,522	(45,651)
Written off	(304,701)	(163,655)
	<u>(295,179)</u>	<u>(209,306)</u>

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2022

#### 15. INVESTMENT INCOME

	2022 R	2021 R
Financial assets at amortised cost		
- Interest on cash and cash equivalents	365,199	342,303
Financial assets at fair value through profit and loss		
- Interest on fair value through profit or loss investments	8,396,348	7,068,480
- Dividends earned	841,050	746,250
- Realised gain on investments	7,291,196	2,030,710
- Unrealised (loss)/gain on investments	(580,687)	28,839,865
	<u>16,313,106</u>	<u>39,027,608</u>

#### 16. ASSET MANAGEMENT FEES

Prescient Investment Management (Pty) Ltd	251,834	264,724
M&G Investments Limited	1,068,067	913,074
Sanlam Investment Management Limited	115,768	-
	<u>1,435,669</u>	<u>1,177,798</u>

#### 17. PROFESSIONAL INDEMNITY/FIDELITY/TRUSTEES AND OFFICERS INSURANCE

In accordance with the rules, the Fund has insurance to cover these risks. On 31 December 2022, the total cover was R10 million (2021: R10 million).

#### 18. EVENTS AFTER REPORTING DATE

On 9 February 2023 Petronas announced that it had taken the decision, subject to regulatory approvals and fulfilment of conditions precedent, to sell its entire shareholding in Engen Limited to Vivo Energy Investments BV, a subsidiary of the Vitol Group.

The Trustees will monitor the outcomes of the transaction carefully and assess any impact it may have on the Fund.

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

#### 19. CONTINGENT ASSET

No contingent asset exists as at 31 December 2022 as the Fund sold the pending Road Accident Fund claims to Discovery Third Party Recovery Services (DTPRS).

#### 20. RELATED PARTY TRANSACTIONS

##### Parties with significant influence over the Fund

Discovery Holdings (Pty) Ltd has significant influence over the Fund, as it provides administration, managed care and Diabetes management 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 also 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 2022****20. RELATED PARTY TRANSACTIONS (continued)****Transactions with related parties**

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

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

	<b>2022</b>	<b>2021</b>
	<b>R</b>	<b>R</b>
<b>Statement of comprehensive income</b>		
Contributions received	674,084	828,890
Claims incurred	518,112	1,698,380
Remuneration paid to Medical advisor - Dr Davidson	315,273	300,260
<b>Statement of financial position</b>		
Medical Savings Account trust monies	201,178	189,557

The Principal Officer, Trustees and committee members did not receive any remuneration from the Fund for the years ended 2022 and 2021.

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

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

**Claims incurred**

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

**Transactions with entities that have significant influence over the Fund****Statement of comprehensive income**

Administration fees - Discovery Health (Pty) Ltd	10,054,618	10,066,263
Managed care fees - Discovery Health (Pty) Ltd	4,309,498	4,314,113
Diabetes Management Services - Discovery Health (Pty) Ltd	915,838	-
Consulting fees - Alexander Forbes Health (Pty) Ltd	448,638	428,490

**Statement of financial position**

Administration fees - Discovery Health (Pty) Ltd	835,576	812,589
Managed care fees - Discovery Health (Pty) Ltd	358,135	348,252
Consulting fees - Alexander Forbes Health (Pty) Ltd	112,160	35,708

**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 2022

#### 20. 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 Diabetes Management Services Agreement**

The Diabetes Management Services 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 four years and fees will be negotiated on an annual basis.

##### **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.

#### 21. GUARANTEES AND COMMITMENTS

The Fund does not have any guarantees or commitments.

#### 22. 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 and Discovery Health via capitation agreements, in order to control its exposures to losses and protect capital resources. These capitation agreements are, in-substance, the same as non-proportional reinsurance treaties. The Fund remains liable to its members with respect to these services, in the event that the capitation providers fail to meet its obligations.

##### **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 2022

#### 22. 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 probability 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 sufficiently 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 of claims are 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 2022

### 22. 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:

#### 2022

Age grouping	General Practitioners	Specialists	Dentistry	Medicines	Hospital	Optical	Total
0 -25 insured	1,144,446	5,488,885	1,546,137	2,918,357	6,072,653	627,935	17,798,412
26 - 35 insured	558,642	3,620,224	444,929	1,415,386	4,109,958	719,779	10,868,916
36 - 50 insured	1,604,369	10,339,444	1,130,624	4,775,993	10,647,729	2,310,125	30,808,283
51 - 64 insured	1,435,308	16,276,667	1,503,512	8,534,028	14,155,252	2,623,480	44,528,249
>65 insured	2,166,513	31,723,412	1,470,382	15,001,308	36,101,518	4,316,000	90,779,132
ER24	-	-	-	-	-	-	1,089,855
Diabetes Management Services							915,838
Discount received	-	-	-	-	-	-	(170,441)
Third party claims recoveries	-	-	-	-	-	-	(154,686)
Movement in provision	-	-	-	-	-	-	(1,691,700)
Total	6,909,277	67,448,632	6,095,584	32,645,072	71,087,111	10,597,320	194,771,858

#### 2021

Age grouping	General Practitioners	Specialists	Dentistry	Medicines	Hospital	Optical	Total
0 -25 insured	979,394	5,360,247	1,593,650	2,692,367	5,308,338	497,793	16,431,789
26 - 35 insured	567,540	3,854,825	449,261	1,714,440	4,357,273	381,648	11,324,987
36 - 50 insured	1,532,303	10,529,999	1,049,183	4,549,184	10,141,581	1,406,616	29,208,866
51 - 64 insured	1,464,085	17,827,398	1,398,930	8,810,309	17,469,304	1,775,351	48,745,377
>65 insured	1,934,828	29,143,439	1,179,392	13,806,140	34,145,979	3,176,613	83,386,391
ER24	-	-	-	-	-	-	1,142,598
Discount received	-	-	-	-	-	-	(126,855)
Third party claims recoveries	-	-	-	-	-	-	(269,952)
Movement in provision	-	-	-	-	-	-	(2,765,300)
Total	6,478,150	66,715,908	5,670,416	31,572,440	71,422,475	7,238,021	187,077,899

#### 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 2022

### 22. 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 2022 R	Change in liability 2021 R
Effect of a 1% change in assumptions	888,121	912,378
Effect of a 2% change in assumptions	1,796,496	1,845,187
Effect of a 3% change in assumptions	2,725,166	2,799,358

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

### 23. FINANCIAL RISK MANAGEMENT REPORT

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

For the year ended 31 December 2022	Financial assets and liabilities 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	270,910,968	-	-	270,910,968
Investments: current assets	55,401,366	-	-	55,401,366
Cash and cash equivalents	-	6,478,945	-	6,478,945
Accounts receivable	-	675,470	649,723	1,325,193
Accounts payable	-	1,984,282	2,446,278	4,430,560
Investment of Medical Savings Account monies	25,509,954	-	-	25,509,954
Medical Savings Account Liability	24,798,161	-	-	24,798,161
	376,620,449	9,138,697	3,096,001	388,855,147
For the year ended 31 December 2021				
Investments: non-current assets	259,527,458	-	-	259,527,458
Investments: current assets	49,520,946	-	-	49,520,946
Cash and cash equivalents	-	17,125,380	-	17,125,380
Accounts receivable	-	414,309	516,746	931,055
Accounts payable	-	1,767,555	2,135,551	3,903,106
Investment of Medical Savings Account monies	24,143,513	-	-	24,143,513
Medical Savings Account Liability	24,486,155	-	-	24,486,155
	357,678,072	19,307,244	2,652,297	379,637,613

# ENGEN MEDICAL BENEFIT FUND

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2022

### 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 27% (2021: 22%) 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
<b>2022</b>		<b>R</b>	<b>R</b>	<b>R</b>
<b>Liabilities</b>				
Outstanding risk claims provision	(2,432,249)	(729,450)	(1,701,301)	(4,863,000)
Insurance payables	(2,446,278)	-	-	(2,446,278)
Other payables	(1,984,282)	-	-	(1,984,282)
Medical Savings Account trust monies	-	-	(24,798,161)	(24,798,161)
	(6,862,809)	(729,450)	(26,499,462)	(34,091,721)
<b>Assets</b>				
Fair value through profit or loss: current assets	8,594,562	17,433,584	29,373,220	55,401,366
Cash and cash equivalents	6,478,945	-	-	6,478,945
Medical Savings Account trust monies	25,509,954	-	-	25,509,954
<b>Excess liquidity</b>	<b>33,720,652</b>	<b>16,704,134</b>	<b>2,873,758</b>	<b>53,298,544</b>

	Up to 1 Month	1 - 3 Months	4 - 12 Months	Total
<b>2021</b>		<b>R</b>	<b>R</b>	<b>R</b>
<b>Liabilities</b>				
Outstanding risk claims provision	(4,497,022)	(983,205)	(1,074,473)	(6,554,700)
Insurance payables	(2,135,551)	-	-	(2,135,551)
Other payables	(1,767,555)	-	-	(1,767,555)
Personal medical savings account trust monies	-	-	(24,486,155)	(24,486,155)
	(8,400,128)	(983,205)	(25,560,628)	(34,943,961)
<b>Assets</b>				
Fair value through profit or loss: current assets	10,042,592	17,136,384	22,341,970	49,520,946
Cash and cash equivalents	17,125,380	-	-	17,125,380
Medical Savings Account trust monies	24,143,513	-	-	24,143,513
<b>Excess liquidity</b>	<b>42,911,357</b>	<b>16,153,179</b>	<b>(3,218,658)</b>	<b>55,845,878</b>

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



# ENGEN MEDICAL BENEFIT FUND

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2022

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

#### Credit risk

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

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

The Fund manages credit risk by:

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

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

31 December 2022	Fully performing	Past due	Impaired	Total carrying amount
Insurance receivables				
- Contributions outstanding	1,171,717	22,601	-	1,194,318
- Amount owing from suppliers and members	88,983	231,018	329,722	649,723
Accrued interest	517,215	-	-	517,215
<b>Total</b>	<b>1,777,915</b>	<b>253,619</b>	<b>329,722</b>	<b>2,361,256</b>

31 December 2021	Fully performing	Past due	Impaired	Total carrying amount
Insurance receivables				
- Contributions outstanding	1,460,204	32,588	-	1,492,792
- Amount owing from suppliers and members	160,573	56,523	299,650	516,746
Accrued interest	318,627	-	-	318,627
<b>Total</b>	<b>1,939,404</b>	<b>89,111</b>	<b>299,650</b>	<b>2,328,165</b>

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

31 December 2022	30 days	60 days	90 days	Total
Contributions outstanding	2,684	11,905	8,012	22,601
Amount owing from suppliers and members	70,718	160,300	-	231,018
<b>Total</b>	<b>73,402</b>	<b>172,205</b>	<b>8,012</b>	<b>253,619</b>

31 December 2021	30 days	60 days	90 days	Total
Contributions outstanding	10,650	4,695	17,243	32,588
Amount owing from suppliers and members	41,280	15,243	-	56,523
<b>Total</b>	<b>51,930</b>	<b>19,938</b>	<b>17,243</b>	<b>89,111</b>

The member debt have similar credit quality as Contribution debt as these debtors are members of the Fund.

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

# ENGEN MEDICAL BENEFIT FUND

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2022

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

#### Credit risk (continued)

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

#### Fitch National Long-Term Rating

Financial Institution	2022 R	2021 R	Credit Rating	
			2022	2021
First National Bank	6,478,945	17,125,380	Ba1	Ba1

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

#### Market risk

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

#### Currency risk

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

#### Interest rate risk

The Fund holds 73.98% (2021: 70.16%) of its investments in interest-bearing instruments and 26.02% (2021: 29.84%) 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:

2022	Up to 1 Month	1 - 12 Months	Over 1 year	Total
Fair value through profit or loss: non-current assets	48,939,663	17,167,826	118,217,201	184,324,690
Fair value through profit or loss: current assets	8,594,562	46,806,804	-	55,401,366
Cash and cash equivalents	6,478,945	-	-	6,478,945
Medical Savings Account trust monies	25,509,954	-	-	25,509,954
<b>Total</b>	<b>89,523,125</b>	<b>63,974,630</b>	<b>118,217,201</b>	<b>271,714,957</b>

2021	Up to 1 Month	1 - 12 Months	Over 1 year	Total
Fair value through profit or loss: non-current assets	13,142,573	17,224,791	131,356,021	161,723,385
Fair value through profit or loss: current assets	10,042,592	39,478,354	-	49,520,946
Cash and cash equivalents	17,125,380	-	-	17,125,380
Medical Savings Account trust monies	24,143,513	-	-	24,143,513
<b>Total</b>	<b>64,454,058</b>	<b>56,703,145</b>	<b>131,356,021</b>	<b>252,513,224</b>

#### Equity price risk

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

ENGEN MEDICAL BENEFIT FUND

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2022

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

2022

Fair value through profit or loss investments	270,910,968	261,048,861	251,233,682	231,708,855
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	Fair value	5% strengthening in ZAR	10% strengthening in ZAR	20% strengthening in ZAR
	R	R	R	R

2021

Fair value through profit or loss investments	259,527,458	261,538,646	263,645,041	268,100,255
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*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

2022

Fair value through profit or loss investments	270,910,968	257,386,280	237,804,171	206,687,497
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	Fair value	1% increase in interest rate	2.5% increase in interest rate	5% increase in interest rate
	R	R	R	R

2021

Fair value through profit or loss investments	259,527,458	250,571,587	237,588,017	216,911,637
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*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

2022

Fair value through profit or loss investments	270,910,968	263,747,763	256,597,596	242,334,507
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	Fair value	5% decrease in equity market	10% decrease in equity market	20% decrease in equity market
	R	R	R	R

2021

Fair value through profit or loss investments	259,527,458	253,158,309	248,825,868	240,175,345
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# ENGEN MEDICAL BENEFIT FUND

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2022

### 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 at fair value	
	2022	2021
	R	R
<i>Financial assets</i>		
Fair value through profit or loss investments:		
Non-current assets	270,910,968	259,527,458
Fair value through profit or loss investments:		
Current assets	55,401,366	49,520,946
Cash and cash equivalents	6,478,945	17,125,380
Trade and other receivables	2,031,534	1,988,921
- Loans and receivables	517,215	318,627
- Insurance receivables	1,514,319	1,670,294
<i>Financial liabilities</i>		
Outstanding claims provision	4,863,000	6,554,700
Trade and other payables	4,430,560	3,903,106
- Insurance payables	2,446,278	2,135,551
- Other payables	1,984,282	1,767,555
- Medical Savings Account liability	24,798,161	24,486,155

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

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

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

**ENGEN MEDICAL BENEFIT FUND**
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2022**
**24. FINANCIAL RISK MANAGEMENT REPORT (continued)**
**Fair values (continue)**

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

<b>As at 31 December 2022</b>	<b>Level 1 R</b>	<b>Level 2 R</b>	<b>Level 3 R</b>	<b>Reclassification R</b>
Cash	63,976,446	-	-	-
Equities	77,416,421	-	-	-
Bonds	-	120,348,244	-	-
Listed property	9,169,857	-	-	-
<b>Total</b>	<b>150,562,724</b>	<b>120,348,244</b>	-	-

<b>As at 31 December 2021</b>	<b>Level 1 R</b>	<b>Level 2 R</b>	<b>Level 3 R</b>	<b>Reclassification R</b>
Cash	8,244,662	-	-	-
Equities	83,675,702	-	-	-
Bonds	-	153,478,723	-	-
Listed property	14,128,371	-	-	-
<b>Total</b>	<b>106,048,735</b>	<b>153,478,723</b>	-	-

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

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

Specific valuation techniques used to value financial instruments include:

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

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

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2022

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

##### Derivatives

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

Derivatives used can generally be classified as futures and options.

##### Futures

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

##### Options

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

##### Unconsolidated investment structures

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

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

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

Fund	as at 31 December 2022			as at 31 December 2021		
	Investment	Portfolio Size	% of portfolio size	Investment	Portfolio Size	% of portfolio size
Prescient Money Market Fund - B1	55,401,366	3,295,134,189	1.7%	49,520,946	4,350,777,934	1.1%
Prescient Positive Return Fund *	66,388,335	66,388,335	100.0%	64,347,402	64,347,402	100.0%
M&G Life Inflation Plus 5% Medical Aid Fund	152,458,743	1,254,045,681	12.2%	195,180,055	1,104,132,286	17.7%
SIM Absolute Return Medical Portfolio	52,063,889	619,000,000	8.4%	-	-	-

\* The Prescient Positive return fund is a segregated portfolio.

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2022

#### 25. CAPITAL ADEQUACY

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

The Fund monitors capital using a solvency ratio, which is accumulated funds divided by gross contributions (refer to note 5.3 in the Report of the Board of Trustees). The Medical Schemes Act requires the Fund to maintain a solvency ratio of 25%. The Fund includes members' funds, less the unrealised gains on financial assets through profit or loss, as a measure of capital. This measure of capital is consistent with the prior year, and there have been no changes in the Fund's objectives, policies and procedures for managing capital from 31 December 2021 to 31 December 2022.

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 129.11% at 31 December 2022 and 122.59% at 31 December 2021. 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 indirect investments in Discovery Holdings Ltd. This is in contravention of section 35(8)(c) of the Act, as the Fund is not allowed to hold shares in the holding company of the Administrator or any other Administrator.

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

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

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

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

## ENGEN MEDICAL BENEFIT FUND

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2022

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

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

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

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

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

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

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

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

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

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

In terms of Section 59(2) and Regulation 6(2) of the Act a medical scheme shall pay a member or supplier of services any benefit owing to that member or supplier within 30 days of receipt of the medical claim. A limited number of exceptions were noted where settlement took longer than 30 days from receipt.

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

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

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

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

##### 26.4 Sustainability of the Fund

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

In terms of section 33(2) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound. At 31 December 2022 the Fund incurred a net healthcare deficit of R5.9m (2021: net healthcare surplus of R5.5m). After investment income the Fund recorded a surplus of R8.9m (2021: surplus of R43.3m) and the Trustees are comfortable that the results are within the pricing strategy of the Fund.

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

The Fund experience higher than expected claims.

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

The Board of Trustees carefully monitors the Fund's performance with the assistance of the Fund's actuaries. The Trustees are comfortable that the Fund is in a sound financial position as at 31 December 2022.

#### 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 129.11%;
- Available cash and investments at the end of the year amounted to R332,791,278;
- Actuarial forecast for the next 5 years.