

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE



WILL BE HELD ON THURSDAY, 18 JUNE 2015, AT 12:00 IN THE CANTEEN GAMES ROOM,  
ENGEN COURT, THIBAULT SQUARE, CAPE TOWN.

---

#### AGENDA

1. To read the Notice convening the Annual General Meeting.
2. To approve the Minutes of the previous Annual General Meeting held on 19 June 2014.
3. To receive and adopt the Chairperson's Report for the year ended 31 December 2014.
4. To receive and adopt the Annual Financial Statements for the year ended 31 December 2014.
5. To appoint the auditors for the ensuing year.
6. To ratify the appointment of Trustees/alternates.
7. To transact any other business of which notice was given.
8. Close

**Please note:** Notice of any motion to be placed before the Annual General Meeting must reach the Principal Officer not later than seven days prior to the date of the meeting.

By order of the Board

A handwritten signature in black ink, appearing to read 'Nazeeem Salie', is written over a light grey circular stamp.

**NAZEEM SALIE**  
PRINCIPAL OFFICER

CAPE TOWN  
MAY 2015

**Please note that this document includes the Fund's summarised  
financial statements for 2014.**

**ENGEN MEDICAL BENEFIT FUND  
CHAIRPERSON'S REPORT FOR THE YEAR 2014**

---

**1. OVERVIEW OF THE ENGEN MEDICAL BENEFIT FUND**

The Engen Medical Benefit Fund has managed to continue providing its members with comprehensive benefits and ensure that they receive quality service when they need it most. This has been achieved in spite of the challenging South African healthcare sector, confronted with high healthcare costs that are driven by the high healthcare inflation and high chronic disease prevalence. The Board of Trustees (BOT) has remained committed to ensuring that governance processes remain at acceptable standards to deliver quality service to its members. This is achieved through various Board committees, namely: Audit and Risk Committee, the Investment Committee, the Operations Committee, the Benefits Committee and independent experts.

The following individuals were appointed/re-appointed as new members of the Board and the Audit Committee during the 2014 year:

- Ms D Mokotjo
- Ms M Lund
- Mr S Abrahams
- Ms L Shaw
- Mr R Marchant
- Mr T Mabotja (Alternate Trustee)
- Mr F Bobbert (Audit Committee)

We congratulate all the above individuals on their appointment/re-appointment and look forward to their contribution in Fund matters.

The Fund produced a net surplus of R0,3 million (2013: R1,3 million) during the year. This is in spite of the Fund experiencing a decrease of 1% in the total number of lives (decrease of 2% in dependants and a 1% increase in principal members). The Fund made an operating loss of R6 million during the year, which exceeded the budgeted loss of R2,2 million. The loss was mainly driven by the following:

- The contribution income received of R160 million (2013: R150 million) being less than the budget of R163 million during the 2014 year.
- Increase in managed care expenditure due to an increase in the number of members enrolled on the various programmes.

The net deficit and the high operating loss have resulted in a decrease in the Fund's reserve ratio, which saw a reduction of 3% to 51% (2013: 54%) during the 2014 year. However, this ratio remains in line with industry expectations of similar medical schemes and above the regulatory requirements of 25%.

The claims as a percentage of contribution income have decreased from 97% in 2013 to 96% during the 2014 year. Large claims (claims in excess of R100,000) as a percentage of total claims have remained constant at 40% compared to the 2013 year.

Non-healthcare expenditure as a percentage of contribution income increased by 1% during the 2014 year to 9%. This is lower than the industry average at 12%.

The following benefit changes have been implemented for the 2015 benefit year:

- A separate benefit for high-cost, specialised medication. The benefit will provide members access to specific high-cost medication up to a limit of R120,000 per beneficiary per annum.
- An additional benefit for qualifying beneficiaries of R10,000 per family per year, over and above the current medical and surgical appliances benefit limit of R19,500 per family per annum.
- A benefit for the pneumococcal vaccine, Numovac, for all beneficiaries aged 65 years and older (maximum of one vaccine per beneficiary).

The Fund continued its partnership with Momentum Multiply in our endeavour to ensure the well-being of our members. Momentum Multiply saw the launch of new benefits for base members, such as Dis-Chem, Avis, Nu Metro Cinemas and Mango. Full Multiply members enjoyed savings among various partners, and can expect new benefits to be launched in 2015.

The Fund, together with the employer and independent experts, will continue monitoring the challenging market and industry trends, and ensuring that the Fund delivers the best possible healthcare cover in the best interests of all its members.

**ENGEN MEDICAL BENEFIT FUND  
CHAIRPERSON'S REPORT FOR THE YEAR 2014 (CONTINUED)**

**2. HEALTHCARE REVIEW**

**2.1 Utilisation of benefits**

The proportional spread of benefits per provider category reflects a relatively stable trend, with major contributors being private hospitalisation, pharmacy costs and specialists consultation. The benefits paid towards hospitalisation costs were decreased marginally compared to the 2013 year. This was driven by a reduction in high-cost claims (claims in excess of R500,000) and a reduction in the number of days spent in hospital. The majority of medication expenditure is due to Prescribed Minimum Benefit (PMB) conditions and oncology. Managed care programme enrollees have increased due to the increase in the number of people identified as eligible for enrolment. The Fund has also identified a substantial increase in dentistry and optical costs during the year.

**2.2 Demographic profile**

Total number of principal members at 31 December 2014 has remained stable at 3,634 (2013: 3,607). The number of beneficiaries decreased from 8,001 in 2013 to 7,951 in 2014. The Fund has an average age of 37 years, which is higher than the industry average of 32 years. This is driven by the Fund's pensioner ratio of 14% compared to the industry at 7%. It has been noted that the loss in membership is more prominent in those who are in their 20s and 40s. The majority of members have been on the Fund for a period of more than five years.

**2.3 Fund's risk analysis**

The following have been identified as high health risks facing the Fund during the 2014 year, the impact of which could have a negative financial impact to the Fund:

- increase in depression cases
- declining membership, and
- ageing members.

The Fund will continue monitoring these items to ensure that the said impact is managed and relevant mitigation strategies are put in place for the benefit of all stakeholders.

**3. FINANCIAL OVERVIEW (SEE THE ENCLOSED SUMMARISED FINANCIAL STATEMENTS FOR FURTHER DETAIL)**

**Accumulated funds**

A surplus of R297,685 was realised during the year (2013: R1,304,182 surplus). The decrease in the surplus can be attributed to the increased claims experience, significant increase in managed care costs and a decline in membership. The Fund's financial performance was favourably influenced by the increase of investment and other income during 2014. The reported surplus was after taking into account investment income of R6,549,262 (2013: R5,784,079). The returns on investments were positively affected by the investment market during 2014. The accumulated funds increased to R90,164,279 as at 31 December 2014 (31 December 2013: R89,866,586).

The below is a summary of the financial results:

	2014		2013
	ACTUAL	BUDGET	ACTUAL
	R	R	R
<b>Income</b>			
Contribution income	160,160,630	162,552,531	150,303,082
<b>Expenditure</b>			
Benefits	(153,083,934)	(153,774,637)	(146,087,462)
Administration	(7,803,391)	(7,879,843)	(7,393,561)
Managed healthcare	(6,034,777)	(4,734,408)	(4,795,886)
Investment income (net of expenses)	6,549,262	6,226,834	5,784,079
<b>Net surplus</b>	<b>297,685</b>	<b>2,421,516</b>	<b>1,304,182</b>

**ENGEN MEDICAL BENEFIT FUND  
CHAIRPERSON'S REPORT FOR THE YEAR 2014 (CONTINUED)**

---

**4. VOTE OF APPRECIATION**

On behalf of the BOT of the Fund, we would like to express our thanks to the following people/organisations:

- our colleagues on the BOT for their support and invaluable insight
- the Principal Officer and his team for their dedication and commitment to service excellence for the Fund
- the Operations and Clinical Committees for their consistent hard work and dedication to members, the Fund and Trustees
- the management and staff at Metropolitan Health Corporate (Pty) Ltd for the diligent manner in which they manage the day-to-day affairs of the Fund
- the Company for its active support
- the healthcare consultants, Alexander Forbes Financial Services (Pty) Ltd, for their diligent monitoring of the Fund's performance during the year
- the medical advisor, Dr A Davidson, for his valuable contribution
- the external auditor, PricewaterhouseCoopers Inc, for the efficient manner in which they conducted their audit, and
- our members for their ongoing support.

**5. CONCLUSION**

The Board would like to express its appreciation to all members for their contribution and ongoing active participation in the Fund, and further commit to providing ongoing quality service to its members. The nature of the healthcare industry requires the Fund to remain as close as possible to market trends and implement innovative strategies as and when required to keep abreast of market changes.

The Board is confident that 2015 will yield yet another successful year for the Fund and would like to request your continued support in all its future engagements and efforts on its road to remaining relevant in this ever changing industry.

**MS A BENNETTS  
CHAIRPERSON**

**ENGEN MEDICAL BENEFIT FUND  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2014**

---

The Board of Trustees (BOT) hereby presents its report for the year ended 31 December 2014.

Registration number 1572

**1. MANAGEMENT**

**1.1 BOT in office during the year under review:**

**Appointed members**

Ms A Bennetts – Chairperson	Employer representative	
Mr S Bhoola	Employer representative	Resigned 31 January 2014
Mr L Dumse	Employer representative	
Ms L Shaw	Employer representative	
Mr S Abrahams	Employer representative	
Ms D Makotjo	Employer representative	Appointed 1 March 2014

**Elected members**

Ms D MacIntosh	Member representative	Retired 31 May 2014
Mr R Marchant	Member representative	
Mr N Zungu	Member representative	
Ms G King	Member representative	
Dr A Gray	Member representative	
Ms M Lund	Member representative	Elected 19 June 2014

The BOT is assisted by:

Dr A Davidson	Medical advisor
Alexander Forbes Financial Services (Pty) Ltd	Healthcare consultants and actuaries

**1.2 Principal Officer**

Mr N Salie	PO Box 35
Engen Court	Cape Town
Thibault Square	8000
Cape Town	
8001	

**1.3 Registered office address and postal address**

<b>Business address</b>	<b>Postal address</b>
Engen Court	PO Box 35
Thibault Square	Cape Town
Cape Town	8000
8001	
Country of registration and domicile	South Africa

**1.4 Fund Administrator**

**Metropolitan Health Corporate (Pty) Ltd**

61 St George's Mall	PO Box 4313
Town Square	Vlaeberg
Cape Town	8001
8001	

Accreditation number 17

**ENGEN MEDICAL BENEFIT FUND  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2014 (continued)**

---

**1. MANAGEMENT (CONTINUED)**

**1.5 Managed care provider during the year**

**Metropolitan Health Risk Management (Pty) Ltd**

61 St George's Mall	PO Box 4313
Town Square	Vlaeberg
Cape Town	8001
8001	

Accreditation number 26

**1.6 Investment managers**

**Prescient Investment Management (Pty) Ltd**

Prescient House	PO Box 31142
The Terraces	Tokai
Steenberg Boulevard	7966
Steenberg Office Park	
7966	

Financial service provider number 2545

**Coronation Asset Management (Pty) Ltd**

Seventh Floor	PO Box 44684
MontClare Place	Claremont
Cnr Campground and Main Roads	7735
Claremont	
7708	

Financial service provider number 548

**1.7 Actuaries**

**Alexander Forbes Financial Services (Pty) Ltd**

PO Box 3060	PO Box 3060
Cape Town	Cape Town
8000	8000

**1.8 Auditors**

**PricewaterhouseCoopers Inc.**

No. 1 Waterhouse Place	PO Box 2799
Century City	Cape Town
Cape Town	8000
7441	

**2. DESCRIPTION OF FUND**

**2.1 Terms of registration**

The Engen Medical Benefit Fund is a not-for-profit fund registered in terms of the Medical Schemes Act no 131 of 1998, 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 BOT.

**2.2 Benefit options within the Fund**

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

**ENGEN MEDICAL BENEFIT FUND  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2014 (continued)**

---

**2. DESCRIPTION OF FUND (CONTINUED)**

**2.3 Savings plan**

In order to provide a facility for the Fund's members to set funds aside to meet future healthcare costs not covered in the benefit options, the Trustees have made the savings plan option available to meet this objective. 10% of total contributions are allocated to members' medical savings accounts to cover their day-to-day medical expenses. Unexpended savings amounts are accumulated for the long-term benefit of the members and interest accrues at an average rate of 5.08% (2013: 4.5%).

The Fund's liability to the members in respect of the savings plan is reflected as a financial liability in the Annual Financial Statements, repayable in terms of Regulation 10 of the Act.

In line with the requirements of Circular 38 of 2011, the Fund has placed the savings liability funds in a separate trust bank account. This is reflected as a current asset in the Annual Financial Statements. In terms of the rules of the Fund, the Fund carries the risk.

**2.4 Risk transfer agreement**

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 for all members of the Fund.

**3. INVESTMENT STRATEGY OF THE FUND**

The Fund's investment objectives are to maximise the return on its investments on a long-term basis at acceptable risk. The investment strategy takes into consideration both constraints imposed by legislation and those imposed by the BOT. An Investment Committee was established to assist the BOT in any matters related to investments. The committee is mandated by the BOT and part of their duties is 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 BOT with recommendations on the risks identified.

The Investment Committee presently comprises of:

- |                 |                                    |
|-----------------|------------------------------------|
| - Mr R Marchant | Trustee                            |
| - Mr F Bobbert  | Non-trustee                        |
| - Mr S Abrahams | Trustee                            |
| - Ms L Shaw     | Trustee                            |
| - Ms A Bennetts | Chairperson of the BOT (by invite) |
| - Mr N Salie    | Principal Officer (by invite)      |

The Investment Committee met once during the year on 2 October 2014.

**ENGEN MEDICAL BENEFIT FUND  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2014 (continued)**

**4. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES**

**4.1 Operational statistics**

	<b>2014</b>	<b>2013</b>
Average number of members during the accounting period	3,606	3,618
Number of members at 31 December	3,634	3,607
Average number of beneficiaries during the accounting period	7,922	8,074
Number of beneficiaries at 31 December	7,951	8,001
Dependant ratio	1.19	1.22
Number of new members	250	198
Number of members leaving	223	208
Average age of beneficiaries for the accounting period	37.21	36.97
Pensioner ratio	0.14	0.14
Average net contribution per member per month (R)	3,701	3,462
Average net contribution per beneficiary per month (R)	1,685	1,551
Relevant healthcare expenditure as a percentage of net contributions (%)	95.58%	97.20%
Non-healthcare expenses as a percentage of net contributions (%)	8.69%	8.14%
Non-healthcare expenses per beneficiary per month (R)	146	126
Average healthcare management expense per member per month (R)	139	110
Average healthcare management expense per beneficiary per month (R)	63	50
Managed care: Management services as a percentage of gross contributions	3.39%	2.87%
Amount paid to Administrator (R)	6,299,907	5,927,086
Accumulated funds per member at 31 December (R)	24,811	24,914
Return on investments	7.46%	9.15%
Reserves per beneficiary (R)	14,075	13,734

**4.2 Results of operations**

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

**4.3 Accumulated funds ratio**

	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per statement of financial position	111,909,429	109,884,538
Less: Revaluation reserve	(21,745,158)	(20,017,952)
Accumulated funds per Regulation 29	<u>90,164,271</u>	<u>89,866,586</u>
Gross contributions	<u>177,956,552</u>	<u>167,005,861</u>
Accumulated funds ratio	<u>50.67%</u>	<u>53.81%</u>



**ENGEN MEDICAL BENEFIT FUND  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2014 (continued)**

---

**4. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES (CONTINUED)**

**4.4 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.

**4.5 Revaluation reserve**

The revaluation reserve reflects the unrealised portion of the Fund's available-for-sale investments.

**4.6 Outstanding claims**

Movements on the outstanding claims provision are set out in Note 6 to the summarised financial statements. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Fund.

**5. ACTUARIAL SERVICES**

An actuarial valuation is not required for the purposes of the summarised financial statements, however, full use of the Fund's healthcare consultants are made in contribution setting and benefit design.

**6. EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE**

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

**7. 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 BOT by means of written terms of reference as to its membership, authority and duties. The committee consists of six members, of which two are members of the BOT. 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:

- 16 April 2014
- 13 November 2014

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 BOT in carrying out its duties relating to the Fund's accounting policies, internal control systems and financial reporting practices. The external auditor formally reports to the committee on findings arising from its audit activities.

At 31 December 2014, the Audit Committee comprised of:

- |                 |                           |
|-----------------|---------------------------|
| - Mr A Bryce    | Elected member (Chairman) |
| - Mr P du Plooy | Elected member            |
| - Mr F Bobbert  | Elected member            |
| - Mr A Pienaar  | Elected member            |
| - Mr R Marchant | Trustee                   |
| - Ms L Shaw     | Trustee                   |

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

In accordance with the rules, the Fund has insurance to cover these risks. On 31 December 2014, the total cover was R10 million (2013: R10 million).

**ENGEN MEDICAL BENEFIT FUND  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2014 (continued)**

**9. BOT, AUDIT COMMITTEE AND INVESTMENT COMMITTEE MEETING ATTENDANCE**

The following schedule sets out the BOT, Audit and Investment Committee meeting attendances:

Trustee/Sub-committee member	Board meetings		Audit Committee meetings		Investment Committee meetings	
	A	B	A	B	A	B
A Bennetts	4	4	2	1	-	-
A Bryce	-	-	2	1	-	-
F Bobbert	-	-	2	2	1	1
P Du Plooy	-	-	2	2	-	-
A Pienaar	-	-	2	2	-	-
L Shaw	4	3	2	2	1	-
R Marchant	4	2	2	-	1	-
S Abrahams	4	3	-	-	1	1
N Salie (Principal Officer)*	4	4	2	2	1	1
D MacIntosh	2	2	-	-	-	-
Dr A Gray	4	4	-	-	-	-
G King	4	4	-	-	-	-
L Dumse	4	2	-	-	-	-
N Zungu	4	3	-	-	-	-
D Makotjo	3	2	-	-	-	-
M Lund	2	2	-	-	-	-

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

**B** - Actual number of meetings attended

\* By invitation in his capacity as Principal Officer

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

**10.1 Contravention of Section 35(8)(c) of the Medical Schemes Act**

**Nature and impact**

The Fund holds shares in MMI Holdings Ltd and Sanlam Ltd. This is in contravention of Section 35(8)(c) of the Act, as the Fund is not allowed to hold shares in the holding company of the Administrator or any other administrator.

**Causes for the failure**

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

**Corrective action**

The Fund has been granted exemption from the Council for Medical Schemes in terms of Section 35(8) and is therefore allowed to hold the MMI Holdings Ltd and Sanlam Ltd shares.

**10. NON-COMPLIANCE WITH THE MEDICAL SCHEMES ACT (CONTINUED)**

**10.2 Contravention of Regulation 10(6) of the Medical Schemes Act**

**Nature and impact**

The Fund is in contravention of Regulation 10(6) of the Act, as they paid acute medication Prescribed Minimum Benefits (PMBs) from members' medical savings accounts.

**Causes for the failure**

Payment as a PMB benefit (from the risk pool and not medical savings accounts or other benefits), is subject to the application of managed care interventions (formularies, Designated Service Providers (DSPs), evidence based medicine, and the use of DSPs). These interventions result in co-payments to members. Where pre-registrations and authorisations are neither possible nor practical, (as with certain PMB diagnosis and treatment pairs (DTPs), such as Otitis Media) medical schemes may establish an application process. Pre-registration or pre-authorisation is appropriate and practical for chronic disease lists (CDLs) and chronic elements of DTPs where treatment interventions are done regularly. Similarly, pre-registration or authorisation is required for elective basis interventions.

**Corrective action**

The extract of findings is comprised of medicines/diagnoses for which there is an application process in place. Therefore, without pre-authorisation or the following of the application process, a claim is not deemed to be a PMB until such time, and hence payment from savings is appropriate.

**10.3 Contravention of Regulation 8(1) of the Medical Schemes Act**

**Nature and impact**

Regulation 8(1) of the Act states that: "Confirm that subject to the provisions of this Regulation, any benefit option that is offered by the medical scheme pays in full, without co-payment or the use of deductibles, the diagnosis, treatment and care costs of the PMB conditions." The Fund did not pay acute medication relating to PMBs in full, and co-payments were made on these benefits. The amount totals to R66,556 for the year.

**Causes for the failure**

The system did not link the ICD-10 tariff code 0200 for acute medication to PMBs. Thus, these were not paid in full and co-payments were made on these claims. Only when a member queried the claim, was that specific claim rectified.

**Corrective action**

A PMB project is currently underway and is aimed at addressing the following in a phased approach:

- Phase 1: PMB identification
- Phase 2: Implementation of risk mitigation tools
- Phase 3: Mandates and claim rules

**10. NON-COMPLIANCE WITH THE MEDICAL SCHEMES ACT (CONTINUED)**

**10.4 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”. Not all contributions were received within this allowed timeframe. As at 31 December 2014, there were contribution debtors outstanding for more than 30 days to the amount of R115,981. This amount represents 0.07% of the total contributions received during the year, but the delay in receipt is in contravention of Section 26(7) of the Act.

**Causes for the failure**

The contribution debtors at year end are outstanding due to membership changes after initial contributions were raised. These discrepancies were communicated to the employers and pension administrators, and paid in the following 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.



## **REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS TO THE MEMBERS OF ENGEN MEDICAL BENEFIT FUND**

The summary financial statements of Engen Medical Benefit Fund, as set out on pages 14 to 32, which comprise the summary statement of financial position as at 31 December 2014, and the summary statements of comprehensive income, changes in funds and reserves and cash flows for the year then ended, and related notes, are derived from the audited financial statements of Engen Medical Benefit Fund for the year ended 31 December 2014. We expressed an unmodified audit opinion on those financial statements in our report dated 28 April 2015.

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards and the Medical Schemes Act of South Africa. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Engen Medical Benefit Fund.

### **Trustees' responsibility for the summary financial statements**

The Trustees are responsible for the preparation of a summary of the audited financial statements in accordance with the content and disclosure requirements of Circular 6 of 2013 issued by the Council for Medical Schemes.

### **Auditor's responsibility**

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, Engagements to Report on Summary Financial Statements.

### **Opinion**

In our opinion, the summary financial statements derived from the audited financial statements of Engen Medical Benefit Fund for the year ended 31 December 2014 are consistent, in all material respects, with those financial statements, in accordance with the content and disclosure requirements of Circular 6 of 2013 issued by the Council for Medical Schemes.

*PricewaterhouseCoopers Inc.*

PricewaterhouseCoopers Inc.  
Director: NA Jacobs  
Registered Auditor  
Cape Town  
Date: 28 April 2015

---

*PricewaterhouseCoopers Inc., No. 1 Waterhouse Place, Century City 7441, P O Box 2799, Cape Town 8000  
T: +27 (21) 529 2000, F: +27 (21) 529 3300, www.pwc.co.za*

Africa Senior Partner: S P Kana  
Management Committee: H Boegman, T P Blandin de Chalain, B M Deegan, J G Louw, S N Madikane, P J Mothibe, T D Shango, S Subramoney, A R Tilakdari, F Tonelli  
Western Cape region – Partner in charge: D J Fölscher  
The Company's principal place of business is at 2 Eglin Road, Sunninghill where a list of directors' names is available for inspection.  
Reg. no. 1998/012055/21, VAT reg.no. 4950174682

**ENGEN MEDICAL BENEFIT FUND**  
**SUMMARISED STATEMENT OF FINANCIAL POSITION**  
as at 31 December 2014

<b>ASSETS</b>	<b>NOTE</b>	<b>2014</b>	<b>2013</b>
		<b>R</b>	<b>R</b>
<b>Non-current assets</b>			
Available-for-sale investments		103,732,426	95,707,257
<b>Current assets</b>			
Trade and other receivables		1,001,883	956,348
Cash and cash equivalents		16,617,379	21,911,600
Investment of personal medical savings account trust monies		14,372,284	12,602,588
<b>Total assets</b>		<u>135,723,972</u>	<u>131,177,793</u>
<b>FUNDS AND LIABILITIES</b>			
<b>Members' funds</b>			
Accumulated funds		90,164,271	89,866,586
Revaluation reserve		21,745,158	20,017,952
<b>Current liabilities</b>			
Personal medical savings account trust monies		15,414,424	12,719,850
Trade and other payables		2,979,246	3,873,731
Outstanding claims provision	6	5,420,873	4,699,674
<b>Total funds and liabilities</b>		<u>135,723,972</u>	<u>131,177,793</u>

**ENGEN MEDICAL BENEFIT FUND**  
**SUMMARISED STATEMENT OF COMPREHENSIVE INCOME**  
for the year ended 31 December 2014

	NOTES	2014 R	2013 R
<b>Risk contribution income</b>	7	160,160,630	150,303,082
<b>Relevant healthcare expenditure</b>		(153,083,934)	(146,087,462)
Net claims incurred	8	(153,344,860)	(146,060,679)
Risk claims incurred		(153,401,381)	(146,167,379)
Third-party claim recoveries		56,521	106,700
Net income/(expense) on risk transfer arrangement	8	260,926	(26,783)
Risk transfer arrangements fee/premiums paid		(680,404)	(620,907)
Recoveries received on risk transfer arrangements		941,330	594,124
<b>Gross healthcare result</b>		7,076,696	4,215,620
Managed care: Management services		(6,034,777)	(4,795,886)
Administration expenditure		(7,803,391)	(7,393,561)
Net impairment losses on healthcare receivables		(86,093)	(39,991)
<b>Net healthcare result</b>		(6,847,565)	(8,013,818)
<b>Other income</b>		8,356,337	10,372,797
Investment income		6,549,262	5,784,079
Interest on personal medical savings account trust monies		687,244	510,682
Net realised gain	9	1,088,706	4,025,533
Sundry income		31,125	52,503
<b>Other expenditure</b>		(1,211,087)	(1,054,797)
Asset management fees		(523,843)	(544,115)
Interest paid on personal medical savings account trust monies		(687,244)	(510,682)
<b>Net surplus for the year</b>		297,685	1,304,182
<b>Other comprehensive income</b>			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Fair value adjustment on available-for-sale investments		1,727,206	1,590,709
<b>Total comprehensive income for the year</b>		<b>2,024,891</b>	<b>2,894,891</b>

**ENGEN MEDICAL BENEFIT FUND**  
**SUMMARISED STATEMENT OF CHANGES IN FUNDS AND RESERVES**  
**for the year ended 31 December 2014**

---

	<b>Accumulated funds</b>	<b>Revaluation reserve</b>	<b>Total members' funds</b>
	<b>R</b>	<b>R</b>	<b>R</b>
<b>Balance as at 1 January 2013</b>	88,562,404	18,427,243	106,989,647
Net surplus for the year	1,304,182	-	1,304,182
Movement on revaluation of available-for-sale investments	-	1,590,709	1,590,709
<b>Balance as at 31 December 2013</b>	<u>89,866,586</u>	<u>20,017,952</u>	<u>109,884,538</u>
<b>Balance as at 1 January 2014</b>	89,866,586	20,017,952	109,884,538
Net surplus for the year	297,685	-	297,685
Movement on revaluation of available-for-sale investments	-	1,727,206	1,727,206
<b>Balance as at 31 December 2014</b>	<u>90,164,271</u>	<u>21,745,158</u>	<u>111,909,429</u>



**ENGEN MEDICAL BENEFIT FUND**  
**SUMMARISED STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2014**

	2014 R	2013 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net surplus for the year	297,685	1,304,182
Adjustments for:		
Investment income	(6,549,262)	(5,784,079)
Interest on personal medical savings account trust monies	(687,244)	(510,682)
Interest paid on personal medical savings account trust monies	687,244	510,682
Impairment losses	86,093	39,991
Cost incurred in managing investments	523,843	544,115
Net realised gain	(1,088,706)	(4,025,533)
Cash flows from operations before working capital changes	(6,730,347)	7,921,324
Working capital changes:		
Increase in accounts receivable	(131,628)	(99,774)
Decrease in accounts payable	(894,485)	(950,997)
Increase in investment of personal savings account trust monies	2,007,330	1,426,468
Increase/(decrease) in outstanding claims provision	721,200	(1,621,155)
	1,702,417	(1,245,458)
<b>Cash flows from operating activities</b>	<b>(5,027,930)</b>	<b>(9,166,782)</b>
Interest received	1,503,405	1,842,998
<b>Net cash flows from operating activities</b>	<b>(3,524,525)</b>	<b>(7,323,784)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Purchase of available-for-sale investments	-	(6,000,000)
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>(6,000,000)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(3,524,525)</b>	<b>(13,323,784)</b>
Cash and cash equivalents at the beginning of the year	34,514,188	47,837,972
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>30,989,663</b>	<b>34,514,188</b>
Fund	16,617,379	21,911,600
Personal medical savings account trust monies	14,372,284	12,602,588

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2014**

---

**1. PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the Annual Financial Statements are in accordance with International Financial Reporting Standards (IFRS). The same accounting policies were adopted in the preparation of the summarised financial statements. For the purpose of the summarised financial statements, the accounting policies are not presented. The accounting policies adopted are consistently applied to all years presented, unless otherwise stated.

**2. BASIS OF PREPARATION**

The summarised financial statements are prepared in accordance with IAS34 Interim Financial Reporting. These summarised financial statements do not contain all the information and disclosures required in the Annual Financial Statements, which comply with IFRS.

All the information presented in the summarised financial statements is a summary of the information included in the Annual Financial Statements. The information included in the summarised financial statements agrees to the Annual Financial Statements.

**3. EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE**

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

**4. CONTINGENT ASSET**

At 31 December 2014, the Fund has a contingent asset to the value of R3,143,534 (2013: R4,131,583). This relates to the Road Accident Fund (RAF) claims submitted, where there is no assurance of recovery and the duration of the recovery period is of such a nature that the asset has not been recognised in the 2014 financial year. Income will be recognised, as and when the recoveries are paid over to the Fund. In 2014 the Fund recovered R56,521 (2013: R106,700) from the RAF.

**5. AUDITED FINANCIAL STATEMENTS**

A full set of the audited Annual Financial Statements can be obtained from the Fund Administrator's office or postal address, as follows:

**Business address**

Engen Medical Benefit Fund  
Town Square Building  
61 St George's Mall  
Cape Town  
8000

**Postal address**

Engen Medical Benefit Fund  
PO Box 4313  
Vlaeberg  
8001

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2014 (continued)**

**6. OUTSTANDING RISK CLAIMS PROVISION**

	<b>Covered by risk transfer arrangements</b>	<b>Not covered by risk transfer arrangements</b>
<b>2014</b>		
Provision for outstanding risk claims	<u>63,818</u>	<u>5,357,055</u>
<i>Analysis of movements in outstanding risk claims</i>		
Balance at the beginning of the year	53,774	4,645,900
Payments in respect of the prior year	<u>(53,774)</u>	<u>(4,507,607)</u>
Over provision in respect of the prior year	-	138,293
Adjustment for the current year	<u>63,818</u>	<u>5,218,762</u>
Balance at the end of the year	<u>63,818</u>	<u>5,357,055</u>
<i>Analysis of outstanding risk claims provision</i>		
Estimated gross claims	-	5,525,089
Outstanding claims provision relating to risk transfer arrangement	63,818	-
Less: Estimated recoveries from savings plan accounts	<u>-</u>	<u>(168,034)</u>
Balance at the end of the year	<u>63,818</u>	<u>5,357,055</u>
Total outstanding risk claims provision		<u>5,420,873</u>
<b>2013</b>		
Provision for outstanding risk claims	<u>53,774</u>	<u>4,645,900</u>
<i>Analysis of movements in outstanding risk claims</i>		
Balance at the beginning of the year	53,041	6,267,787
Payments in respect of the prior year	<u>(53,041)</u>	<u>(6,042,520)</u>
Over provision in respect of prior year	-	225,267
Adjustment for the current year	<u>53,774</u>	<u>4,420,633</u>
Balance at the end of the year	<u>53,774</u>	<u>4,645,900</u>
<i>Analysis of outstanding risk claims provision</i>		
Estimated gross claims	-	4,762,426
Outstanding claims provision relating to risk transfer arrangement	53,774	-
Less: Estimated recoveries from savings plan accounts	<u>-</u>	<u>(116,526)</u>
Balance at the end of the year	<u>53,774</u>	<u>4,645,900</u>
Total outstanding risk claims provision		<u>4,699,674</u>

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2014 (continued)**

---

**6. OUTSTANDING RISK CLAIMS PROVISION (CONTINUED)**

**Assumptions and sensitivities**

*Process used to determine the assumptions*

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

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

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 the composition of membership and dependants 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 is automatically incorporated.
- Utilisation escalation has been provided for the impact of HIV/AIDS.

The assumed percentages of claims outstanding at the end of the year:

	<b>2014</b>	<b>2013</b>
Claims outstanding for:	%	%
- December	8	7
- November	3	4
- October	1	2
- September	0.5	1
- August and prior	0.3	0.3

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2014 (continued)**

**6. OUTSTANDING RISK CLAIMS PROVISION (CONTINUED)**

**Assumptions and sensitivities (continued)**

*Process used to determine the assumptions (continued)*

The impact of the sensitivity of these percentages are set out below:

	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
- Effect of a 1% change in assumptions	696,678	664,824
- Effect of a 2% change in assumptions	1,408,348	1,343,911
- Effect of a 3% change in assumptions	2,135,183	2,037,465

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.

**7. RISK CONTRIBUTION INCOME**

Gross contributions per registered rules	177,956,552	167,005,861
Less: Savings contributions received*	<u>(17,795,922)</u>	<u>(16,702,779)</u>
	<u>160,160,630</u>	<u>150,303,082</u>

\* The savings contributions are received by the Fund in terms of Regulation 10(1) and the Fund's registered rules, and held in trust on behalf of its members.

**8. RELEVANT HEALTHCARE EXPENDITURE**

**Claims incurred, excluding claims incurred in respect of risk transfer arrangement**

Current year claims per registered rules	162,769,145	156,188,976
Movement in outstanding risk claims provision	5,218,762	4,420,633
- Over provision in prior year	<span style="border: 1px solid black;">(138,293)</span>	<span style="border: 1px solid black;">(225,267)</span>
- Provision for current year	<span style="border: 1px solid black;">5,357,055</span>	<span style="border: 1px solid black;">4,645,900</span>
	<u>167,987,907</u>	<u>160,609,609</u>
Less:	15,527,856	15,036,354
- Savings plan claims paid*	<span style="border: 1px solid black;">15,323,771</span>	<span style="border: 1px solid black;">14,875,209</span>
- Discount received on claims	<span style="border: 1px solid black;">204,085</span>	<span style="border: 1px solid black;">161,145</span>
	<u>152,460,051</u>	<u>145,573,255</u>

\* Claims are paid on behalf of the members from their personal medical savings account in terms of Regulation 10(3) and the Fund's registered benefits.

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2014 (continued)**

**8. RELEVANT HEALTHCARE EXPENDITURE (CONTINUED)**

	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
<b>Claims incurred in respect of risk transfer arrangement</b>		
Current year claims in respect of risk transfer arrangement	877,512	540,350
Movement in outstanding risk claims provision	63,818	53,774
- Provision for the current year	63,818	53,774
	941,330	594,124
	153,401,381	146,167,379
Less: Third-party claims recoveries	(56,521)	(106,700)
<b>Total risk claims incurred</b>	153,344,860	146,060,679
<b>Net expense/(income) on risk transfer arrangement</b>		
Premiums paid	680,404	620,907
Recoveries received	(941,330)	(594,124)
	(260,926)	26,783

The Fund entered into a risk transfer arrangement with ER 24 (Pty) Ltd. The agreement covers emergency 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.

**9. NET REALISED GAINS**

Realised gains on changes in positions of portfolios	1,088,706	4,025,533
--	-----------	-----------

**10. INSURANCE RISK MANAGEMENT**

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

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 (BOT) 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 BOT 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 SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2014 (continued)**

---

**11. RELATED PARTY TRANSACTIONS**

**Parties with significant influence over the Fund**

Metropolitan Health Corporate (Pty) Ltd has significant influence over the Fund, as it provides financial, operational and administration services on which policy decisions are based, but does not control the Fund.

Managed care organisation, Metropolitan Health Risk Management (Pty) Ltd, a wholly owned subsidiary of Metropolitan Health Corporate (Pty) Ltd, has significant influence over the Fund as a managed care provider, but does not control the Fund.

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

Momentum Interactive (Pty) Ltd is an employee wellness programme to reward members and to encourage them to live a healthier lifestyle. By following a physically healthy lifestyle, members can earn Multiply points and enjoy rewards on a wide range of products and services. The agreement is renewed each year unless notification of termination is given.

**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 BOT, the Principal Officer and members of sub-committees.

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

**Transactions with related parties**

The table below provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

**Key management personnel (BOT, Fund managers, medical advisors, Principal Officer and Executive Committee) and their close family members.**

	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
<b>Statement of comprehensive income</b>		
Contributions received	729,106	683,028
Claims incurred	317,644	345,121
Medical advisor – Dr A Davidson	201,760	190,340
<b>Statement of financial position</b>		
Personal medical savings account trust monies	69,896	54,658
Medical advisor – Dr A Davidson	-	15,862

The Principal Officer, Trustees and committee members did not receive any fees from the Fund for the years ended 2014 and 2013.

**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.

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2014 (continued)**

**11. RELATED PARTY TRANSACTIONS (CONTINUED)**

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

	<b>2014</b>	<b>2013</b>
	<b>R</b>	<b>R</b>
<b>Statement of comprehensive income</b>		
Administration fees – Metropolitan Health Corporate (Pty) Ltd	6,299,907	5,927,086
Managed care fees – Metropolitan Health Risk Management (Pty) Ltd	6,034,777	4,795,886
Consulting fees – Alexander Forbes Financial Services (Pty) Ltd	408,348	408,348
Wellness programme administration fees – Momentum Interactive (Pty) Ltd	276,389	261,649
<b>Statement of financial position</b>		
Management care fees – Metropolitan Health Risk Management (Pty) Ltd	516,159	423,684
Actuarial fees – Alexander Forbes Financial Services (Pty) Ltd	34,029	34,029
Postage fees – Metropolitan Health Corporate (Pty) Ltd	24,573	32,656
Wellness programme administration fees – Momentum Interactive (Pty) Ltd	23,097	21,775

**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 BOT. 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 managed care agreement**

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

**Terms and conditions of the consulting fees**

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

**Terms and conditions of the Momentum Wellness Programme**

The administration fee is renewed each year unless notification of termination is given as per the agreement.

**12. FINANCIAL RISK MANAGEMENT REPORT**

**Risk management**

The Fund's activities exposes 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 minimise 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 BOT. The BOT approves all these written policies. The BOT has set up an Investment Committee to this effect and reports to the BOT.



**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2014 (continued)**

**12. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)**

**Liquidity risk**

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

At year end, 23% (2013: 26%) of the Fund's assets were invested in cash products to ensure that the Fund can meet its short-term liabilities. The tables below illustrate the prudent liability position of the Fund:

	<b>Up to 1 month</b>	<b>1 – 3 months</b>	<b>4 – 12 months</b>	<b>Total</b>
<b>2014</b>		<b>R</b>	<b>R</b>	<b>R</b>
<b>Liabilities</b>				
Outstanding risk claims provision	(3,781,859)	(896,778)	(742,236)	(5,420,873)
Insurance payables	(2,137,248)	-	-	(2,137,248)
Other payables	(841,998)	-	-	(841,998)
Personal medical savings account trust monies	-	-	(15,414,424)	(15,414,424)
	(6,761,105)	(896,778)	(16,156,660)	(23,814,543)
<b>Assets</b>				
Cash and cash equivalents	16,617,379	-	-	16,617,379
Personal medical savings account trust monies	14,372,284	-	-	14,372,284
<b>Excess liquidity</b>	<b>24,228,558</b>	<b>(896,778)</b>	<b>(16,156,660)</b>	<b>7,175,120</b>

	<b>Up to 1 month</b>	<b>1 – 3 months</b>	<b>4 – 12 months</b>	<b>Total</b>
<b>2013</b>		<b>R</b>	<b>R</b>	<b>R</b>
<b>Liabilities</b>				
Outstanding risk claims provision	(2,937,373)	(314,545)	(1,447,756)	(4,699,674)
Insurance payables	(3,047,823)	-	-	(3,047,823)
Other payables	(825,908)	-	-	(825,908)
Personal medical savings account trust monies	-	-	(12,719,850)	(12,719,850)
	(6,811,104)	(314,545)	(14,167,606)	(21,293,255)
<b>Assets</b>				
Cash and cash equivalents	21,911,600	-	-	21,911,600
Personal medical savings account trust monies	12,602,588	-	-	12,602,588
<b>Excess liquidity</b>	<b>27,703,084</b>	<b>(314,545)</b>	<b>(14,167,606)</b>	<b>13,220,933</b>

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

**Credit risk**

The Fund's principle financial assets are cash and cash equivalents, accounts receivable and available-for-sale 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 where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. 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.

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
for the year ended 31 December 2014 (continued)

**12. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)**

**Credit risk (continued)**

<b>31 December 2014</b>	<b>Fully performing</b>	<b>Past due</b>	<b>Impaired</b>	<b>Total carrying amount</b>
Insurance receivables				
- Contributions outstanding	631,259	58,489	57,492	747,240
- Amount owing from suppliers and members	9,516	32,106	80,427	122,049
- Savings plan account advances	4,941	-	-	4,941
- Sundry debtors	66,754	-	-	66,754
- Risk transfer arrangements	63,818	-	-	63,818
Accrued interest	133,185	-	-	133,185
<b>Total</b>	<b>909,473</b>	<b>90,595</b>	<b>137,919</b>	<b>1,137,987</b>

<b>31 December 2013</b>	<b>Fully performing</b>	<b>Past due</b>	<b>Impaired</b>	<b>Total carrying amount</b>
Insurance receivables				
- Contributions outstanding	593,152	34,081	33,459	660,692
- Amount owing from suppliers and members	17,512	8,960	46,808	73,280
- Savings plan account advances	4,557	-	-	4,557
- Sundry debtors	102,114	-	-	102,114
- Risk transfer arrangements	53,774	-	-	53,774
Accrued interest	142,198	-	-	142,198
Prepaid expenses	-	-	-	-
<b>Total</b>	<b>913,307</b>	<b>43,041</b>	<b>80,267</b>	<b>1,036,615</b>

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

<b>31 December 2014</b>	<b>30 days</b>	<b>60 days</b>	<b>90 days</b>	<b>Total</b>
Contributions outstanding	38,087	15,876	4,526	58,489
Amount owing from suppliers and members	3,825	22,405	5,876	32,106
<b>Total</b>	<b>41,912</b>	<b>38,280</b>	<b>10,402</b>	<b>90,595</b>

<b>31 December 2013</b>	<b>30 days</b>	<b>60 days</b>	<b>90 days</b>	<b>Total</b>
Contributions outstanding	22,865	8,268	2,948	34,081
Amount owing from suppliers and members	5,348	2,746	866	8,960
<b>Total</b>	<b>28,213</b>	<b>11,014</b>	<b>3,814</b>	<b>43,041</b>

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

**Fitch National long-term rating**

<b>Financial institution</b>	<b>2014</b> R	<b>2013</b> R	<b>Credit rating</b>	
			<b>2014</b>	<b>2013</b>
Investec Bank	15,300,000	20,218,481	BBB-	BBB-
Standard Bank	15,689,663	14,295,707	BBB	BBB

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2014 (continued)**

**12. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)**

**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 Fund operates in South Africa and therefore its cash flows are denominated in South African Rand. There is no currency risk exposure.

The following tables illustrate the concentration of currency risk to which the Fund's investments are currently exposed:

	<b>ZAR</b>	<b>Euro</b>	<b>Pound</b>	<b>US Dollar</b>	<b>Total</b>
<b>2014</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Available-for-sale investments	103,732,426	-	-	-	103,732,426
Cash and cash equivalents	16,617,379	-	-	-	16,617,379
<b>Total</b>	<b>120,349,805</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>120,349,805</b>

<b>2013</b>					
Available-for-sale investments	95,707,257	-	-	-	95,707,257
Cash and cash equivalents	21,911,600	-	-	-	21,911,600
<b>Total</b>	<b>117,618,857</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>117,618,857</b>

**Interest rate risk**

The Fund holds 74.99% (2013: 74.68%) of its investments in interest-bearing instruments and 25.01% (2013: 25.34%) in equities. This exposes the Fund's investments to changes in market interest rates.

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

<b>2014</b>	<b>Up to 1 month</b>	<b>1 – 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
Available-for-sale investments	14,465,604	15,979,339	43,198,754	73,643,697
Cash and cash equivalents	16,617,379	-	-	16,617,379
Personal medical savings account trust monies	14,372,284	-	-	14,372,284
<b>Total</b>	<b>45,455,267</b>	<b>15,979,339</b>	<b>43,198,754</b>	<b>104,633,360</b>

<b>2013</b>	<b>Up to 1 month</b>	<b>1 – 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
Available-for-sale investments	15,473,626	22,231,173	33,749,479	71,454,278
Cash and cash equivalents	21,911,600	-	-	21,911,600
Personal medical savings account trust monies	12,602,588	-	-	12,602,588
<b>Total</b>	<b>49,987,814</b>	<b>22,231,173</b>	<b>33,749,479</b>	<b>105,968,466</b>

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
for the year ended 31 December 2014 (continued)

**12. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)**

**Market risk (continued)**

**Equity price risk**

The Fund is exposed to equity price risk as it invested funds in South African equities through its available-for-sale investments portfolio. 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 track records in terms of performance.

**Currency value sensitivity analysis**

	<b>Fair value</b>	<b>5% strengthening in ZAR</b>	<b>10% strengthening in ZAR</b>	<b>20% strengthening in ZAR</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>2014</b>				
Available-for-sale investments	103,732,426	103,732,426	103,732,426	103,732,426

	<b>Fair value</b>	<b>5% strengthening in ZAR</b>	<b>10% strengthening in ZAR</b>	<b>20% strengthening in ZAR</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>2013</b>				
Available-for-sale investments	95,707,257	95,707,257	95,707,257	95,707,257

**Interest rate sensitivity analysis**

	<b>Fair value</b>	<b>1% increase in interest rate</b>	<b>2.5% increase in interest rate</b>	<b>5% increase in interest rate</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>2014</b>				
Available-for-sale investments	73,634,696	73,499,889	73,294,360	72,956,721

	<b>Fair value</b>	<b>1% increase in interest rate</b>	<b>2.5% increase in interest rate</b>	<b>5% increase in interest rate</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>2013</b>				
Available-for-sale investments	71,454,278	71,047,485	70,528,752	69,608,109

**Equity price sensitivity analysis**

	<b>Fair value</b>	<b>5% decrease in equity market</b>	<b>10% decrease in equity market</b>	<b>20% decrease in equity market</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>2014</b>				
Available-for-sale investments	30,097,730	29,498,076	28,983,972	27,949,473

	<b>Fair value</b>	<b>5% decrease in equity market</b>	<b>10% decrease in equity market</b>	<b>20% decrease in equity market</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>2013</b>				
Available-for-sale investments	24,252,979	23,661,206	23,069,434	21,883,463

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2014 (continued)**

**12. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)**

**Market risk (continued)**

**Equity price risk (continued)**

Any fair value gain/loss on the available-for-sale investments, due to fluctuations in market price variables, will be initially recognised in the statement of changes in funds and reserves as well as other comprehensive income in the statement of comprehensive income. When the available-for-sale investment is subsequently sold, the gain/loss will be recognised as other income in the statement of comprehensive income.

**Fair value estimation**

The fair value of available-for-sale 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 are 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 available-for-sale 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 on the previous page illustrate the resulting fair value change with various fluctuations in a specific variable.

**13. FINANCIAL INSTRUMENTS**

**Fair values**

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

	Carrying amount		Fair value	
	2014	2013	2014	2013
	R	R	R	R
<i>Financial assets</i>				
Available-for-sale investments	103,732,426	95,707,257	103,732,426	95,707,257
Cash and cash equivalents	16,617,379	21,911,600	16,617,379	21,911,600
Trade and other receivables	1,001,883	956,348	1,001,883	956,348
- Loans and receivables	133,185	142,198	133,185	142,198
- Insurance receivables	868,698	814,150	868,698	814,150
<i>Financial liabilities</i>				
Outstanding claims provision	5,420,873	4,699,674	5,420,873	4,699,674
Trade and other receivables	2,979,246	3,873,731	2,979,246	3,873,731
- Insurance payable	2,137,248	3,047,823	2,137,248	3,047,823
- Other payables	841,998	825,908	841,998	825,908
- Savings plan liability	15,414,424	12,719,850	15,414,424	12,719,850

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2014 (continued)**

**13. FINANCIAL INSTRUMENTS (CONTINUED)**

**Fair values (continued)**

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

The fair value of available-for-sale 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.

The tables below illustrate the fair values of financial assets by hierarchy level:

<b>As at 31 December 2014</b>	<b>Level 1 R</b>	<b>Level 2 R</b>	<b>Level 3 R</b>	<b>Reclassification R</b>
Cash	11,725,843	-	-	-
Equity	24,997,007	-	-	-
Bonds	3,584,255	33,164,501	-	-
Listed property	5,100,723	-	-	-
Money-market instruments	-	25,160,097	-	-
<b>Total</b>	<b>45,407,828</b>	<b>58,324,598</b>	-	-

<b>As at 31 December 2013</b>	<b>Level 1 R</b>	<b>Level 2 R</b>	<b>Level 3 R</b>	<b>Reclassification R</b>
Cash	13,867,735	-	-	-
Equity	19,902,608	-	-	-
Bonds	273,665	30,521,257	-	-
Listed property	4,350,371	-	-	-
Money-market instruments	-	26,791,621	-	-
<b>Total</b>	<b>38,394,379</b>	<b>57,312,878</b>	-	-

There were no reclassifications during the year between hierarchy levels.

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

Specific valuation techniques used to value financial instruments include:

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

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

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

The Council for Medical Schemes (CMS) 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:

##### **14.1 Contravention of Section 35(8)(c) of the Medical Schemes Act**

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

The Fund holds shares in MMI Holdings Ltd and Sanlam Ltd. This is a contravention of Section 35(8)(c) of the Act, as the Fund is not allowed to hold shares in the holding company of the Administrator or any other administrator.

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

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

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

The Fund has been granted exemption from the CMS in terms of Section 35(8) and is therefore allowed to hold the MMI Holdings Ltd and Sanlam Ltd shares.

##### **14.2 Contravention of Regulation 10(6) of the Medical Schemes Act**

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

The Fund is in contravention of Regulation 10(6) of the Act, as they paid acute medication Prescribed Minimum Benefits (PMBs) from members' medical savings accounts.

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

Payment as a PMB benefit (from the risk pool and not medical savings accounts or other benefits), is subject to the application of managed care interventions (formularies, Designated Service Providers (DSPs), evidence based medicine, and the use of DSPs). These interventions result in co-payments to members. Where pre-registrations and authorisations are neither possible nor practical, (as with certain PMB diagnosis and treatment pairs (DTPs), such as Otitis Media) medical schemes may establish an application process. Pre-registration or pre-authorisation is appropriate and practical for chronic disease lists (CDLs) and chronic elements of DTPs where treatment interventions are done regularly. Similarly, pre-registration is required for elective basis interventions.

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

The extract of findings is comprised of medicines/diagnoses for which there is an application process in place. Therefore, without pre-authorisation or the following of the application process, a claim is not deemed to be a PMB until such time, and hence payment from savings is appropriate.

##### **14.3 Contravention of Regulation 8(1) of the Medical Schemes Act**

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

Regulation 8(1) of the Act states that: "Confirm that subject to the provisions of this Regulation, any benefit option that is offered by the medical scheme pays in full, without co-payment or the use of deductibles, the diagnosis, treatment and care costs of the PMB conditions." The Fund did not pay acute medication relating to PMBs in full, and co-payments were made on these benefits. The amount totals to R66,556 for the year.

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

The system did not link the ICD-10 tariff code 0200 for acute medication to PMBs. Thus, these were not paid in full and co-payments were made on these claims. Only when a member queried the claim, was that claim rectified.

**14. NON-COMPLIANCE WITH THE MEDICAL SCHEMES ACT (CONTINUED)**

**14.3 Contravention of Regulation 8(1) of the Medical Schemes Act (continued)**

**Corrective action**

A PMB project is currently underway and is aimed at addressing the following in a phased approach:

Phase 1: PMB identification

Phase 2: Implementation of risk mitigation tools

Phase 3: Mandates and claim rules

**14.4 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”. Not all contributions were received within this allowed timeframe. As at 31 December 2014, there were contribution debtors outstanding for more than 30 days to the amount of R115,981. This amount represents 0.07% of the total contributions received during the year, but the delay in receipt is in contravention of Section 26(7) of the Act.

**Causes for the failure**

The contribution debtors at year end are outstanding due to membership changes after initial contributions were raised. These discrepancies were communicated to the employers and pension administrators, and paid in the following 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.