



**NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE ENGEN MEDICAL BENEFIT FUND WILL BE HELD ON TUESDAY, 14 JUNE 2016, AT 10:00 IN THE CONFERENCE ROOM, GROUND FLOOR, ENGEN COURT, THIBAULT SQUARE, CAPE TOWN.**

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**AGENDA**

1. Welcome and apologies
2. To read the notice convening the Annual General Meeting
3. To approve the minutes of the previous Annual General Meeting held on 18 June 2015
4. To receive and adopt the Chairperson's report for the year ended 31 December 2015
5. To receive and adopt the Annual Financial Statements for the year ended 31 December 2015
6. To appoint the auditors for the ensuing year
7. To ratify the appointment of Trustees/alternates
8. To transact any other business of which notice was given
9. Close

**Please note:** Notice of any motion to be placed before the AGM 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 2016

**Please note that this document includes the Fund's Summarised  
Financial Statements for 2015.**

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

The Engen Medical Benefit Fund has always ensured that it provides the best medical cover to its members at the time they need it the most. This is done by providing comprehensive medical benefits at competitive market-related prices. The Board of Trustees (BOT) has remained committed to ensuring the governance processes remain at acceptable standards to deliver quality service to its members. This is achieved through various Board committees, namely: the Audit and Risk Committee, the Investment Committee, the Operations Committee and the Benefits Committee. The BOT and its respective committees, the Administrator and healthcare consultants ensure that the Fund remains sustainable and provides relevant benefits to its members.

2015 has been a challenging year for the healthcare sector, which has reported low growth in membership (0.4%) and legislative challenges that have resulted in high private healthcare costs. The high private healthcare costs are also the reason for the ongoing Competition Commission enquiry into the private healthcare sector.

The employer has also continued to show its support to the Fund and has assisted in ensuring that the Fund remains relevant to its active employee population through a survey conducted to determine member satisfaction with the Fund. The results of the survey highlighted a general satisfaction with the benefits offered by the Fund, but also highlighted industry challenges with the high costs of comprehensive medical cover. In a bid to educate members about the Fund, the employer has also facilitated roadshows, which took place in the first quarter of 2016.

Overall, the Fund performed significantly better than budget during the year ending 31 December 2015. This was mainly due to a lower-than-budgeted claims experience and a higher-than-budgeted investment income. As at 31 December 2015, the Fund's solvency ratio was 51.5%, which is well above the legislated minimum solvency ratio of 25%. This is a 0.9% increase in the solvency level from December 2014. It is imperative that a sufficient solvency level reserve is maintained.

The Fund produced a net surplus of R8.4m (2014: R0.3m) during the year despite experiencing a decrease of 1% in the total number of lives (a decrease of 2% in dependants). The Fund achieved an operating surplus of R0.9m (2014: R6.8m) during the year, which exceeded the budgeted loss of R5.4m for the 2015 year. The surplus was due to the lower-than-budgeted claims experience during the year.

In response to challenging market conditions and in a bid to ensure that the Fund remains sustainable, the Board has implemented certain benefit changes to the basic dentistry and optical benefits effective 1 January 2016. These benefit changes are expected to result in a further improvement in the Fund's operating and net results in 2016.

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

## **2. HEALTHCARE REVIEW**

### **2.1 Utilisation of benefits**

The claims experience was significantly lower than budgeted for in 2015, but remains higher than the industry average due to the Fund's ageing membership base. The average claim per member per month was lower than the budget by 5.7% and has increased by 1.9% from 2014 to 2015. The impact of high claimers on the Fund were in line with the 2014 experience, with large claims as a percentage of total claims at 37.5% (2014: 37.2%). The key cost driver categories identified were chronic medicine, specialists, dental professionals and radiology services.

### **2.2 Demographic profile**

The total number of principal members at 31 December 2015 has remained stable at 3 651 (2014: 3 634). The number of beneficiaries decreased from 7 951 in 2014 to 7 757 in 2015. The Fund's average age has deteriorated from 37.21 years in 2014 to 38.52 years in 2015. A deterioration has also been noted in the Fund's pensioner ratio from 0.14 in 2014 to 0.15 in 2015. The Fund members are older than the industry average and are ageing faster.

**ENGEN MEDICAL BENEFIT FUND  
CHAIRPERSON'S REPORT FOR THE YEAR 2015 (CONTINUED)**

**2. HEALTHCARE REVIEW (CONTINUED)**

**2.3 Fund's risk analysis**

The Fund identified the following medium to high health risks during the 2015 year that could have a negative financial impact on the Fund:

Ageing members and increasing cases of depression were highlighted in 2014 and remained risk factors in the 2015 year.

Dentistry costs and the burden of chronic disease were identified as risk factors in 2015. These risks have been mitigated in the 2016 year in the form of a change in benefit structure and the introduction of a new benefit to manage chronic disease costs.

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**

Below is a summary of the financial results:

	2015		2014
	ACTUAL	BUDGET	ACTUAL
	R	R	R
<b>Income</b>			
Contribution income	172 267 318	173 730 268	160 160 630
<b>Expenditure</b>			
Benefits	(156 161 253)	(165 179 088)	(153 083 934)
Administration	(8 259 023)	(8 267 591)	(7 803 391)
Managed healthcare	(6 005 868)	(5 594 620)	(6 034 777)
<b>Investment income (net of expenses)</b>	7 447 536	6 424 280	6 549 262
<b>Net surplus</b>	8 362 988	(33 566)	297 685

**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 MH 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, KPMG, for the efficient manner in which they conducted their audit.
- our members for their ongoing support.

**ENGEN MEDICAL BENEFIT FUND  
CHAIRPERSON'S REPORT FOR THE YEAR 2015 (CONTINUED)**

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**5. CONCLUSION**

Despite an older membership profile, the Fund continues to provide competitive benefits at a relatively low cost to members compared to other open medical schemes. An adverse claims experience, combined with various benefit enhancements and lower contribution increases in recent years, has resulted in a deterioration in the Fund's operating result. However, the BOT remains committed to the long-term sustainability of the Fund and has implemented measures to ensure that the Fund achieves a break-even result in 2016.

The Board would like to express its appreciation to all members for their contribution and ongoing, active participation in the Fund and further commits 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 to implement innovative strategies as and when required to keep abreast of market changes.

The Board is confident that 2016 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 L SHAW**  
CHAIRPERSON

**ENGEN MEDICAL BENEFIT FUND  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2015**

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The Board of Trustees (BOT) hereby presents its report for the year ended 31 December 2015.

Registration number 1572

**1. MANAGEMENT**

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

- Ms L Shaw – Chairperson	Employer representative
- Ms A Bennetts – Chairperson	Employer representative (retired 31 May 2015)
- Mr L Dumse	Employer representative (resigned 31 May 2015)
- Mr S Abrahams	Employer representative
- Ms N Ngema	Employer representative (appointed 1 June 2015)
- Mr V Zondani	Employer representative (appointed 1 June 2015)
- Ms D Makotjo	Employer representative

**Elected members**

- 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

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**

Parc du Cap	PO Box 4313
7 Mispel Road	Vlaeberg
Bellville	8001
7530	

Accreditation number 17

**ENGEN MEDICAL BENEFIT FUND  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2015 (continued)**

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**1. MANAGEMENT (CONTINUED)**

**1.5 Managed care provider during the year**

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

Parc du Cap	PO Box 4313
7 Mispel Road	Vlaeberg
Bellville	8001
7530	

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
C/o 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**

**KPMG Inc.**

1 Mediterranean Street	PO Box 4609
Foreshore	Cape Town
Cape Town	8000
8001	

**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 in 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 2015 (continued)**

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**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 option, 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 5.45% (2014: 5.08%).

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:

- |                 |                                    |
|-----------------|------------------------------------|
| - Mr F Bobbert  | Chairperson (Investment Committee) |
| - Ms L Shaw     | Chairperson (BOT)                  |
| - Mr R Marchant | Trustee                            |
| - Mr S Abrahams | Trustee                            |
| - Mr N Salie    | (Principal Officer) by invite      |

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

- 4 March 2015
- 6 May 2015
- 6 August 2015.

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

**4.1 Operational statistics**

	<b>2015</b>	<b>2014</b>
Average number of members during the accounting period	3 636	3 606
Number of members at 31 December	3 651	3 634
Average number of beneficiaries during the accounting period	7 810	7 922
Number of beneficiaries at 31 December	7 757	7 951
Dependant ratio	1.12	1.19
Number of new members	252	250

**ENGEN MEDICAL BENEFIT FUND  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2015 (continued)**

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

**4.1 Operational statistics (continued)**

	<b>2015</b>	<b>2014</b>
Number of members leaving	299	223
Average age of beneficiaries for the accounting period	38.52	37.21
Pensioner ratio	0.15	0.14
Average net contribution per member per month (R)	3 948	3 701
Average net contribution per beneficiary per month (R)	1 838	1 685
Relevant healthcare expenditure as a percentage of net contributions (%)	94.61%	99.35%
Non-healthcare expenses as a percentage of net contributions (%)	4.83%	4.93%
Non-healthcare expenses per beneficiary per month (R)	89	83
Average healthcare management expense per member per month (R)	138	139
Average healthcare management expense per beneficiary per month (R)	65	63
Managed care: Management services as a percentage of gross contributions	3.14%	3.39%
Amount paid to Administrator (R)	6 735 993	6 299 907
Accumulated funds per member at 31 December (R)	26 986	24 811
Return on investments	4.18%	7.46%
Reserves per beneficiary (R)	15 213	14 075

**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>2015</b>	<b>2014</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	118 005 118	111 909 429
Less: Revaluation reserve	(19 477 859)	(21 745 158)
Accumulated funds per Regulation 29	<u>98 527 259</u>	<u>90 164 271</u>
Gross contributions	<u>191 408 259</u>	<u>177 956 552</u>
Accumulated funds ratio	<u>51.47%</u>	<u>50.67%</u>

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

**4.6 Outstanding claims**

Movements on the outstanding claims provision are set out in Note 8 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 REPORTING DATE**

Other than the event reported below, there have been no events that have occurred subsequent to the end of the accounting period that affect the Annual Financial Statements and that the Trustees consider should be brought to the attention of the members of the Fund.

In October 2015 the Council for Medical Schemes (CMS) had raised questions about the possibility of incorrect payments for claims which should have been processed as Prescribed Minimum Benefits (PMBs). This was an industry-wide issue and affected many medical schemes. It is the Fund's understanding that the CMS had raised this issue based on figures in the Annual Statutory Returns for the years in question, and the ICD-10 codes associated with those figures. In the response to the CMS at the time, reference was made to the Council's Code of Conduct in respect of PMB benefits (Code of Conduct), which states that:

- 'in isolation, ICD-10 codes alone are seldom adequate to correctly identify PMB benefits since the PMB regulations define PMB benefits as a diagnosis with specified severity, in relation to specified treatment.'

The CMS accepted the Fund's response, similar to many other schemes in the industry, and this matter was closed at the time. However, the CMS has raised this issue again in March 2016, by requesting further information from the Fund. The Fund's view on this matter has not changed.

**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 whom 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:

- 21 April 2015
- 10 November 2015.

The Chairperson of the Fund, the financial manager and the external auditors attend all Audit Committee meetings and have unrestricted access to the Chairperson 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 2015, the Audit Committee comprised:

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

**ENGEN MEDICAL BENEFIT FUND  
REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2015 (continued)**

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

In accordance with the rules, the Fund has insurance to cover these risks. On 31 December 2015, the total cover was R10 million (2014: R10 million).

**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 (resigned 31/05/2015)	4	2	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	3	2	-	1	-
S Abrahams	4	3	-	-	1	1
N Salie (Principal Officer)*	4	4	2	2	1	1
Dr A Gray	4	3	-	-	-	-
G King	4	4	-	-	-	-
L Dumse (resigned 31/05/2015)	2	1	-	-	-	-
N Ngema	1	1	-	-	-	-
N Zungu	4	4	-	-	-	-
D Makotjo	4	2	-	-	-	-
M Lund	4	3	-	-	-	-
V Zondani	3	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 CMS 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 PMBs from members' medical savings accounts.

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

Payment as a PMB benefit (from the risk pool and not the medical savings accounts or other benefits), is subject to the application of managed care interventions (formularies, designated service providers (DSPs) and evidence-based medicine). 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. The Fund applies the principles in terms of the CMS 'Code of Conduct in respect of PMBs published in 2010.

### **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 R42 405 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

### **10.4 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 2015, there were contribution debtors outstanding for more than 30 days to the amount of R141 237. This amount represents 0.08% of the total contributions received during the year, but the delay in receipt is in contravention of Section 26(7) of the Act.

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

**10.4 Contravention of Section 26(7) of the Medical Schemes Act (continued)**

**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.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF ENGEN MEDICAL BENEFIT FUND**

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**Report on the Financial Statements**

We have audited the financial statements of Engen Medical Benefit Fund (the Fund), as set out on pages 16 to 29, which comprise the statement of financial position at 31 December 2015, and the statements of comprehensive income, changes in funds and reserves and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

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

The Fund's Trustees are responsible for the preparation and fair presentation of these 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 Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, these financial statements present fairly, in all material respects, the financial position of Engen Medical Benefit Fund at 31 December 2015, 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.

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

As required by the Council for Medical Schemes, we report the following material instance of non-compliance with the requirements of the Medical Schemes Act of South Africa, as amended, that have come to our attention during the course of our audit:

1. Non-compliance with Section 35(8)(c) of the Medical Schemes Act of South Africa.
2. Non-compliance with Section 10(6) of the Medical Schemes Act of South Africa – Prescribed Minimum Benefits paid out of savings.
3. Non-compliance with Section 8(1) of the Medical Schemes Act of South Africa – PMBs not paid in full
4. Non-compliance with S26(7) of the Medical Schemes Act of South Africa - contributions received after three days of becoming due.

**KPMG Inc**



**Per L September**  
Chartered Accountant (SA)  
Registered Auditor  
Director

26 April 2016

**ENGEN MEDICAL BENEFIT FUND**  
**STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2015**

	Notes	2015 R	2014 R
<b>ASSETS</b>			
<b>Non-current assets</b>			
Available-for-sale investments		107 329 758	103 732 426
<b>Current assets</b>			
Trade and other receivables		1 465 629	1 001 883
Cash and cash equivalents		20 400 325	16 617 379
Investment of personal medical savings account trust monies		16 617 349	14 372 284
<b>Total assets</b>		<u>145 813 061</u>	<u>135 723 972</u>
<b>FUNDS AND LIABILITIES</b>			
<b>Members' funds</b>			
Accumulated funds		98 527 259	90 164 271
Revaluation reserve		19 477 859	21 745 158
<b>Current liabilities</b>			
Personal medical savings account trust monies		17 429 774	15 414 424
Trade and other payables		2 054 955	2 979 246
Outstanding claims provision	6	8 323 214	5 420 873
<b>Total funds and liabilities</b>		<u>145 813 061</u>	<u>135 723 972</u>

**ENGEN MEDICAL BENEFIT FUND**  
**STATEMENT OF COMPREHENSIVE INCOME**  
for the year ended 31 December 2015

	Notes	2015 R	2014 R
<b>Risk contribution income</b>	7	172 267 318	160 160 630
<b>Relevant healthcare expenditure</b>		(162 984 115)	(159 118 711)
Net claims incurred		(163 167 121)	(159 379 637)
Risk claims incurred	8	(157 549 342)	(153 401 381)
Managed care: Management services	9	(6 005 868)	(6 034 777)
Third-party claim recoveries		388 089	56 521
Net income on risk transfer arrangement	10	183 006	260 926
Risk transfer arrangement fee		(764 863)	(680 404)
Recoveries received on risk transfer arrangement		947 869	941 330
<b>Gross healthcare result</b>		9 283 203	1 041 919
Administration expenditure		(8 259 023)	(7 803 391)
Net impairment losses on healthcare receivables		(56 846)	(86 093)
<b>Net healthcare result</b>		967 334	(6 847 565)
<b>Other income</b>		8 804 694	8 356 337
Investment income		7 447 536	6 549 262
Interest on personal medical savings account trust monies		850 476	687 244
Net realised gain	11	5 986	1 088 706
Sundry income		500 696	31 125
<b>Other expenditure</b>		(1 409 040)	(1 211 087)
Asset management fees		(558 564)	(523 843)
Interest paid on personal medical savings account trust monies		(850 476)	(687 244)
<b>Net surplus for the year</b>		8 362 988	297 685
<b>Other comprehensive (expense)/income</b>			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Fair value adjustment on available-for-sale investments		(2 267 299)	1 727 206
<b>Total comprehensive income for the year</b>		<b>6 095 689</b>	<b>2 024 891</b>

**ENGEN MEDICAL BENEFIT FUND**  
**STATEMENT OF CHANGES IN FUNDS AND RESERVES**  
**for the year ended 31 December 2015**

	<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 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>
<b>Balance as at 1 January 2015</b>	90 164 271	21 745 158	111 909 429
Net surplus for the year	8 362 988	-	8 362 988
Movement on revaluation of available- for-sale investments	-	(2 267 299)	(2 267 299)
<b>Balance as at 31 December 2015</b>	<u>98 527 259</u>	<u>19 477 859</u>	<u>118 005 118</u>



**ENGEN MEDICAL BENEFIT FUND  
STATEMENT OF CASH FLOWS  
for the year ended 31 December 2015**

	<b>2015</b>	<b>2014</b>		
	<b>R</b>	<b>R</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net surplus for the year	8 362 988	297 685		
Adjustments for:				
Investment income	(7 447 536)	(6 549 262)		
Interest on personal medical savings account trust monies	(850 476)	(687 244)		
Interest paid on personal medical savings account trust monies	850 476	687 244		
Impairment losses	56 846	86 093		
Cost incurred in managing investments	558 564	523 843		
Net realised gain	(5 986)	(1 088 706)		
Cash flows from operations before working capital changes	<u>1 524 876</u>	<u>(6 730 347)</u>		
Working capital changes:				
Increase in accounts receivable	(259 816)	(131 628)		
Decrease in accounts payable	(924 291)	(894 485)		
Increase in investment of personal savings account trust monies	1 164 874	2 007 330		
Increase in outstanding claims provision	<u>2 902 342</u>	<u>721 200</u>		
	2 883 109	1 702 417		
<b>Cash flows from operating activities</b>	<b>4 407 985</b>	<b>(5 027 930)</b>		
Interest received	<u>1 620 026</u>	<u>1 503 405</u>		
<b>Net cash flows from operating activities</b>	<b>6 028 011</b>	<b>(3 524 525)</b>		
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>6 028 011</b>	<b>(3 524 525)</b>		
Cash and cash equivalents at the beginning of the year	30 989 663	34 514 188		
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>37 017 674</b>	<b>30 989 663</b>		
Fund	<table border="1"><tr><td>20 400 325</td></tr></table>	20 400 325	<table border="1"><tr><td>16 617 379</td></tr></table>	16 617 379
20 400 325				
16 617 379				
Personal medical savings account trust monies	<table border="1"><tr><td>16 617 349</td></tr></table>	16 617 349	<table border="1"><tr><td>14 372 284</td></tr></table>	14 372 284
16 617 349				
14 372 284				

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2015**

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**1. PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the Annual Financial Statements are set out below and are in accordance with International Financial Reporting Standards (IFRS). The accounting policies adopted are consistently applied to all years presented, unless otherwise stated.

**2. BASIS OF PREPARATION**

The Annual Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) on the historical cost basis, except for available-for-sale investments, which are carried at fair value.

**3. EVENTS AFTER REPORTING DATE**

Other than the event reported below, there have been no events that have occurred subsequent to the end of the accounting period that affect the Annual Financial Statements and that the Trustees consider should be brought to the attention of the members of the Fund.

In October 2015 the Council for Medical Schemes (CMS) had raised questions about the possibility of incorrect payments for claims which should have been processed as Prescribed Minimum Benefits (PMBs). This was an industry-wide issue and affected many medical schemes. It is the Fund's understanding that the CMS had raised this issue based on figures in the Annual Statutory Returns for the years in question, and the ICD-10 codes associated with those figures. In the response to the CMS at the time, reference was made to the Council's Code of Conduct in respect of PMB benefits (Code of Conduct), which states that:

- 'in isolation, ICD-10 codes alone are seldom adequate to correctly identify PMB benefits since the PMB regulations define PMB benefits as a diagnosis with specified severity, in relation to specified treatment.'

The CMS accepted the Fund's response, similar to many other schemes in the industry, and this matter was closed at the time. However, the CMS has raised this issue again in March 2016, by requesting further information from the Fund. The Fund's view on this matter has not changed.

**4. CONTINGENT ASSET**

At 31 December 2015, the Fund has a contingent asset to the value of R4 346 955 (2014: R3 143 534). This relates to the Road Accident Fund (the '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 2015 financial year. Income will be recognised, as and when the recoveries are paid over to the Fund. In 2015 the Fund recovered R388 089 (2014: R56 521) from the RAF.

**5. AUDITED FINANCIAL STATEMENTS**

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

**Business address**

Parc du Cap  
7 Mispel Road  
Bellville  
7530

**Postal address**

PO Box 4313  
Vlaeberg  
8001

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2015 (continued)**

**6. OUTSTANDING RISK CLAIMS PROVISION**

	<b>Covered by risk transfer arrangements</b>	<b>Not covered by risk transfer arrangements</b>
<b>2015</b>		
Provision for outstanding risk claims	<u>57 168</u>	<u>8 266 046</u>
<i>Analysis of movements in outstanding risk claims</i>		
Balance at the beginning of the year	63 818	5 357 055
Payments in respect of the prior year	<u>(63 818)</u>	<u>(5 092 204)</u>
Over provision in respect of the prior year	-	264 851
Adjustment for the current year	<u>57 168</u>	<u>8 001 195</u>
Balance at the end of the year	<u><u>57 168</u></u>	<u><u>8 266 046</u></u>
<i>Analysis of outstanding risk claims provision</i>		
Estimated gross claims	-	8 362 249
Outstanding claims provision relating to risk transfer arrangement	57 168	-
Less: Estimated recoveries from savings plan accounts	<u>-</u>	<u>(96 203)</u>
Balance at end of year	<u><u>57 168</u></u>	<u><u>8 266 046</u></u>
Total outstanding risk claims provision		<u><u>8 323 214</u></u>
<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><u>63 818</u></u>	<u><u>5 357 055</u></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><u>63 818</u></u>	<u><u>5 357 055</u></u>
Total outstanding risk claims provision		<u><u>5 420 873</u></u>

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2015 (continued)**

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**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 below. The breakdown 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>2015</b>	<b>2014</b>
Claims outstanding for:	%	%
- December	6%	8%
- November	2%	3%
- October	1%	1%
- September	0.4%	0.5%
- August and prior	0.4%	0.3%

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2015 (continued)**

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

**Assumptions and sensitivities (continued)**

*Process used to determine the assumptions (continued)*

	<b>2015</b>	<b>2014</b>
	<b>R</b>	<b>R</b>
Effect of a 1% change in assumptions	697 651	696 678
Effect of a 2% change in assumptions	1 409 863	1 408 348
Effect of a 3% change in assumptions	2 137 096	2 135 183

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	191 408 259	177 956 552
Less: Savings contributions received*	<u>(19 140 941)</u>	<u>(17 795 922)</u>
	<u>172 267 318</u>	<u>160 160 630</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. RISK CLAIMS INCURRED**

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

Current year claims per registered rules	165 471 313	162 769 145
Movement in outstanding risk claims provision	8 001 195	5 218 762
- Over provision in the prior year	<u>(264 851)</u>	<u>(138 293)</u>
- Provision for the current year	<u>8 266 046</u>	<u>5 357 055</u>
	<u>173 472 508</u>	<u>167 987 907</u>
Less:	16 871 035	15 527 856
- Savings plan claims paid*	<u>16 808 367</u>	<u>15 323 771</u>
- Discount received on claims	<u>62 668</u>	<u>204 085</u>
	<u>156 601 473</u>	<u>152 460 051</u>

\* Claims are paid on behalf of the members from their personal medical savings accounts 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 2015 (continued)

**8. RISK CLAIMS INCURRED (CONTINUED)**

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

	<b>2015</b>	<b>2014</b>
	<b>R</b>	<b>R</b>
Current year claims in respect of risk transfer arrangement	890 701	877 512
Movement in outstanding risk claims provision	57 168	63 818
- Provision for the current year	57 168	63 818
	947 869	941 330
	157 549 342	153 401 381

**9. MANAGED CARE: MANAGEMENT SERVICES**

Disease risk management	1 345 037	1 703 605
Medicine risk management	569 476	532 615
Hospital management programme	1 538 777	1 438 995
Prescribed minimum benefit programme	289 203	270 488
Oncology management	175 605	164 260
Metropolitan Health Risk pharmacy benefit management	307 557	287 701
HIV risk management	1 615 430	1 481 666
Pharmacy network	164 783	155 447
	6 005 868	6 034 777

Circular 56 of 2015 issued by the CMS on 9 September 2015, concluded that the cost of all accredited managed care services should be included as part of healthcare expenditure as they directly impact on the delivery of cost-effective and appropriate healthcare benefits to beneficiaries of medical schemes. The managed care fee has therefore been reclassified to 'Relevant healthcare expenditure' in the statement of comprehensive income for 2014 and 2015. The reclassification has not affected or altered the 'Net healthcare result' or net position of the Fund.

**10. NET EXPENSE/(INCOME) ON RISK TRANSFER ARRANGEMENT**

Premiums paid	764 863	680 404
Recoveries received	(947 869)	(941 330)
	(183 006)	(260 926)

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.

**11. NET REALISED GAINS**

Realised gains on changes in positions in portfolios	5 986	1 088 706
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**12. 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.

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2015 (continued)**

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**12. INSURANCE RISK MANAGEMENT (CONTINUED)**

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.

**13. 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 breakdown 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>2015</b>	<b>2014</b>
	<b>R</b>	<b>R</b>
<b>Statement of comprehensive income</b>		
Contributions received	679 807	729 106
Claims incurred	381 633	317 644
Medical advisor - Dr Davidson	213 866	201 760
<b>Statement of financial position</b>		
Personal medical savings account trust monies	-	69 896

**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2015 (continued)**

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

**Key management personnel (BOT, fund managers, medical advisors, Principal Officer and executive committee) and their close family members (continued)**

The Principal Officer, Trustees and committee members did not receive any fees from the Fund for the years ended 2015 and 2014.

**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**

	<b>2015</b>	<b>2014</b>
	<b>R</b>	<b>R</b>
<b>Statement of comprehensive income</b>		
Administration fees – Metropolitan Health Corporate (Pty) Ltd	6 735 993	6 299 907
Managed care fees – Metropolitan Health Risk Management (Pty) Ltd	6 005 868	6 034 777
Consulting fees – Alexander Forbes Financial Services (Pty) Ltd	408 348	408 348
Wellness programme administration fees – Momentum Interactive (Pty) Ltd	295 652	276 389
<b>Statement of financial position</b>		
Managed care fees – Metropolitan Health Risk Management (Pty) Ltd	498 480	516 159
Actuarial fees – Alexander Forbes Financial Services (Pty) Ltd	34 029	34 029
Postage fees – Metropolitan Health Corporate (Pty) Ltd	-	24 573
Wellness programme administration fees – Momentum Interactive (Pty) Ltd	49 613	23 097

**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.



**ENGEN MEDICAL BENEFIT FUND**  
**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2015 (continued)**

**14. FINANCIAL RISK MANAGEMENT REPORT**

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

<b>As at 31 December 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Reclassifica- tion</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Cash	10 630 681	-	-	-
Equities	24 670 872	-	-	-
Bonds	5 138 899	42 882 607	-	-
Listed property	5 279 960	-	-	-
Money-market instruments	-	18 726 739	-	-
<b>Total</b>	<b>45 720 412</b>	<b>61 609 346</b>	-	-

<b>As at 31 December 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Reclassifica- tion</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Cash	11 725 843	-	-	-
Equities	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>	-	-

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.

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

The 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:

### **15.1 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.

### **15.2 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 PMBs from members' medical savings accounts. The amount totals R43,031 for the year.

#### **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, DSPs and evidence-based medicine). These interventions result in co-payments to members. Where pre-registrations and authorisations are neither possible nor practical (as with certain DT PMBs such as Otitis Media) schemes may establish an application process. Pre-registration or pre-authorisation are appropriate and practical for CDLs and the 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. The Fund applies the principles in terms of the CMS 'Code of Conduct in respect of PMB benefits' published in 2010.

### **15.3 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 R42 031 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 the claim rectified.

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

**15.3 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

**15.4 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 2015, there were contribution debtors outstanding for more than 30 days to the amount of R141 237. This amount represents 0.08% 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.