



NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE ENGEN MEDICAL BENEFIT FUND WILL BE HELD ON WEDNESDAY, 14 JUNE 2017, AT 10:00 IN THE CONFERENCE ROOM, GROUND FLOOR, 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 14 June 2016.
3. To receive and adopt the Chairperson's report for the year ended 31 December 2016.
4. To receive and adopt the Annual Financial Statements for the year ended 31 December 2016.
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 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 'Lesley Shaw', is written over a light blue horizontal line.

LESLEY SHAW
PRINCIPAL OFFICER

CAPE TOWN
MAY 2017

**Please note that this document includes the Fund's Summarised
Financial Statements for 2016.**

**MINUTES OF THE ANNUAL GENERAL MEETING OF THE ENGEN MEDICAL
BENEFIT FUND HELD ON TUESDAY, 14 JUNE 2016 AT 10:00 IN THE CONFERENCE ROOM,
GROUND FLOOR, ENGEN COURT, THIBAULT SQUARE, CAPE TOWN**

PRESENT: 35 members represented in person
CHAIRPERSON: Ms L Shaw
PRINCIPAL OFFICER: Mr N Salie
APOLOGIES: None

1. OPENING AND WELCOME

The Chairperson opened the meeting and welcomed all present. A special word of welcome was extended to Mr Maswanganyi from the Council of Medical Schemes.

There being a quorum, the Chairperson confirmed that the meeting was duly constituted.

2. NOTICE CONVENING THE MEETING

The notice convening the Annual General Meeting (AGM), which was confirmed as having been circulated timeously to all members, was TAKEN AS READ.

3. MINUTES OF THE AGM

The minutes of the AGM held on Thursday, 18 June 2015, were TAKEN AS READ and duly CONFIRMED, subject to amendments.

4. ANNUAL REPORT OF THE CHAIRPERSON OF THE BOARD

The annual report of the Board of Trustees (BOT) for the year ended 31 December 2015 was TAKEN AS READ and duly CONFIRMED.

5. ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements for the year ended 31 December 2015, were presented to the meeting. The Annual Financial Statements for the year ended 31 December 2015, were RECEIVED and ADOPTED.

6. APPOINTMENT OF THE AUDITOR

The Chairperson advised that KPMG Inc. had been appointed as the Fund's external auditor for the ensuing year.

7. RATIFICATION OF TRUSTEES/ALTERNATES

The meeting noted that nominations for two members to be appointed as member-elected Trustees and two members to be appointed as member-elected Trustees had been received from members in respect of the four vacancies.

The re-appointment of Dr Gray as member-elected Trustee was presented for confirmation.
The appointment of Ms Bennetts as member-elected Trustee was presented for confirmation.
The appointments of Mr Abrahams and Mr Marchant as member-elected Trustees were presented for confirmation.

The above appointments were adopted.

The Chairperson welcomed the new Trustees.

A member expressed unhappiness that he was not able to vote in the recent Trustee election process (due to communication not received timeously) and asked that the Trustees give serious thought to the methodology used for such elections. The Chairperson informed the meeting that following lengthy engagement with the Council for Medical Schemes regarding the required process to follow when conducting Trustee elections, the Fund had now invited calls for nominations for Trustees from all Fund members.

The meeting noted that the appointment of alternate member Trustees will be ratified at the next Board of Trustees meeting.

**MINUTES OF THE ANNUAL GENERAL MEETING OF THE ENGEN MEDICAL
BENEFIT FUND HELD ON TUESDAY, 14 JUNE 2016 AT 10:00 IN THE CONFERENCE ROOM,
GROUND FLOOR, ENGEN COURT, THIBAUT SQUARE, CAPE TOWN (CONTINUED)**

8. OTHER BUSINESS

- 8.1** At the previous AGM, it was advised that the results of the member survey were in the process of being finalised, whereafter feedback will be provided the following month. The Principal Officer confirmed that the results of the survey were shared in the road show and agreed to include same in a future newsletter.
- 8.2** At the previous AGM, a number of members raised concerns whether the response time for claim reimbursements were in accordance with the agreed service level arrangement. The meeting noted that the Fund officials had addressed the matter and hence the email provision for claims had been separated from the email provision for enquiries for a more improved process.
- 8.3** A number of members expressed concern regarding claims paid more than 30 days from receipt and the delays experienced in resolving queries due to the absence of a walk-in client centre service. They expressed their need for face-to-face interaction and asked the Fund officials to investigate this demand.

Affected members were asked to furnish MH officials with the relevant details of claims paid outside the prescribed 30 day period, for investigation and feedback.

- 8.4** A member expressed unhappiness with the change in dental and optical benefits and said that he was not comfortable with these benefits now being subject to members' savings. The Principal Officer explained that the Fund had seen significant increases in the spend for these two benefit categories over recent years, which impelled the Trustees to make this difficult decision for the sustainability of the Fund. The MH and Alexander Forbes consultants provided a brief explanation of the benefit change and the impact of increased limits for these benefit categories on contribution increases.

9. CLOSE

The Chairperson expressed thanks and appreciation to:

- members of the Board of Trustees for their support and input
- the Principal Officer and his team for their dedication and commitment to the Fund
- the Operations Committee for their untiring hard work and dedication to members, the Fund and Trustees
- the Management and staff of MH
- the Company for its active support
- the healthcare consultants, Alexander Forbes Financial Services (Pty) Ltd
- the medical advisor, Dr Tony Davidson
- the external auditors, KPMG Inc., and
- the members of the Fund for their ongoing support.

There being no further questions from the floor and no further business to discuss, the Chairperson declared the meeting closed at 10h46.

CHAIRPERSON

DATE

1. OVERVIEW OF THE ENGEN MEDICAL BENEFIT FUND

The Board of the Engen Medical Benefit Fund would like to thank the members of the Fund for their valued support and loyalty during 2016. This has been a difficult year for the industry confronted with an increase in the burden of disease and high private healthcare costs resulting in an increase in claims expenditure.

The Board of Trustees has remained committed to ensuring 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, Investment Committee, Operations Committee, Clinical Committee and Benefits and contributions Committee. The Board of Trustees and its respective committees, the Administrator and healthcare consultants ensure that the Fund remains sustainable and provides relevant benefits to its members.

The employer has also continued to show its support to the Fund and has again afforded the Fund the opportunity to be part of the bi-annual Fund roadshows, which assist in ensuring that our members are aware of the benefits offered by the Fund as well as other relevant information, in an effort to assist members in navigating this complex subject matter.

The Fund's performance was poorer than budget during the year ending 31 December 2016. This was mainly due to an increase in claims expenditure during this period. The Fund saw a decline in the solvency ratio as at 31 December 2016 from 51.5% in to 48.8%. The ratio remains above the legislated minimum solvency ratio of 25%. The increase in the burden of disease resulting in high claims experience makes it imperative that sufficient solvency reserve level is maintained to mitigate the risk to the Fund.

The Fund produced a net surplus of R0.3m (2015: R8.4m) during the year, assisted by the income received from investments of R8m. The Fund generated an operating deficit of R7.2m (2015: R1m surplus) during the year, compared to a budgeted surplus of R1.7m for the 2016 year.

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 higher than budgeted during 2016 and remains higher than the industry average due to the Fund's ageing membership base. The average claim per member per month was higher than the budget by 5.0% and has increased by 11.5% from 2015 to 2016. The adverse results are due to an increase in high claims during the 2016 year. This increase in high claims is expected to continue as the Fund continues to see an increase in its pensioner ratio as well as a reduction in membership.

2.2 Demographic profile

The total number of principal members at 31 December 2016 has reduced by 91 members to 3 560 (2015: 3 651). The number of beneficiaries decreased from 7 757 in 2015 to 7 487 in 2016. The Fund's average age has deteriorated from 38.52 years in 2015 to 38.99 years in 2016. The pensioner ratio has also increased from 14.85% in 2015 to 15.65% in 2016. The Fund members are older than the industry average and are ageing faster.

2.3 Fund's risk analysis

The risk profile of the Fund continues to deteriorate due to an ageing population and a subsequent increase in the burden of disease. The claims risk experience has followed suit during 2016, the claims ratio has mostly remained positive during the year, but leaves very little margin to accommodate any significant change in the risk experience.

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.

**ENGEN MEDICAL BENEFIT FUND
CHAIRPERSON'S REPORT FOR THE YEAR 2016 (CONTINUED)**

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

Accumulated funds

Below is a summary of the financial results:

	2016		2015
	ACTUAL	BUDGET	ACTUAL
	R	R	R
Income			
Contribution income	182 391 196	184 700 568	172 267 318
Expenditure			
Benefits	(174 433 676)	(167 921 213)	(156 978 247)
Administration	(8 730 496)	(8 640 972)	(8 315 869)
Managed healthcare	(6 461 619)	(6 442 212)	(6 005 868)
Investment income (net of expenses)	7 579 723	6 025 950	7 395 654
Net surplus	345 128	7 722 121	8 362 988

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 and its committees 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 Inc., for the efficient manner in which they conducted their audit.
- our members for their ongoing support.

5. CONCLUSION

The Board remains committed to the long-term sustainability of the Fund and is in the course of seeking opportunities to ensure that the Fund continues to offer members with the best healthcare services aligned to market practice.

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 2017 will yield a 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 2016**

The Board of Trustees (BOT) hereby presents its report for the year ended 31 December 2016.

Registration number 1572

1. MANAGEMENT

1.1 BOT in office during the year under review:

Appointed members

- | | |
|---------------------------|--|
| - Ms L Shaw - Chairperson | Employer representative |
| - Ms N Ngema | Employer representative |
| - Mr V Zondani | Employer representative |
| - Mr S Chili | Employer representative (appointed 1 September 2016) |
| - Ms D Mokotjo | Employer representative |

Elected members

- | | |
|-----------------|---|
| - Ms S Abrahams | Member representative (re-appointed 14 June 2016) |
| - Mr N Zungu | Member representative (resigned 31 August 2016) |
| - Ms G King | Member representative |
| - Dr A Gray | Member representative |
| - Mr R Marchant | Member representative (re-appointed 14 June 2016) |
| - Ms A Bennetts | Member representative (appointed 14 June 2016) |
| - Ms M Lund | Member representative (resigned 31 August 2016) |

The Board of Trustees 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

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

Country of registration and domicile	South Africa
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1.4 Fund administrator

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 2016 (continued)**

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
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

KPMG Inc.

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

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 131 of 1998 of South Africa (the Act), as amended. Membership of the Fund is open to all employees of Engen Petroleum (Pty) Ltd and any other institution to whose employees membership has been extended by the Board of Trustees.

**ENGEN MEDICAL BENEFIT FUND
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2016 (continued)**

2. DESCRIPTION OF FUND (CONTINUED)

2.2 Benefit options within the Engen Medical Benefit Fund

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

2.3 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 6.41% (2015: 5.45%).

The Fund's liability to the members in respect of the savings plan is reflected as a financial liability in the summarised 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 summarised 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 an acceptable risk. The investment strategy takes into consideration both constraints imposed by legislation and those imposed by the Board of Trustees. An Investment Committee was established to assist the Board of Trustees in any matters related to investments. The committee is mandated by the Board of Trustees and 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 | Chairman (Investment Committee) |
| - Ms L Shaw | Chairperson (BOT) |
| - Mr R Marchant | Trustee |
| - Ms S Abrahams | Trustee |
| - Mr N Salie | (Principal Officer) by invite |

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

- 10 March 2016;
- 10 May 2016; and
- 11 August 2016.

**ENGEN MEDICAL BENEFIT FUND
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2016 (continued)**

4. MANAGEMENT OF INSURANCE RISK

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

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

The Fund uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. The theory of probability is applied to pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims are greater than expected.

Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated with established statistical techniques. There are no changes to assumptions used to measure insurance assets and liabilities that have a material effect on the summarised annual financial statements and there are no terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the Fund's cash flows.

5. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

5.1 Operational statistics

	2016	2015
Average number of members during the accounting period	3 592	3 636
Number of members at 31 December	3 560	3 651
Average number of beneficiaries during the accounting period	7 578	7 810
Number of beneficiaries at 31 December	7 487	7 757
Dependant ratio	1.10	1.12
Number of new members	151	252
Number of members leaving	242	299
Average age of beneficiaries for the accounting period	38.99	38.52
Pensioner ratio	15.65%	14.85%
Average net contribution per member per month (R)	4 231	3 948
Average net contribution per beneficiary per month (R)	2 006	1 838
Relevant healthcare expenditure as a percentage of net contributions (%)	99.18%	94.61%
Non-healthcare expenses as a percentage of net contributions (%)	4.79%	4.83%
Non-healthcare expenses per beneficiary per month (R)	96	89
Average healthcare management expense per member per month (R)	150	138
Average healthcare management expense per beneficiary per month (R)	72	65
Managed care: management services as a percentage of gross contributions	3.19%	3.14%
Amount paid to administrator (R)	7 032 077	6 735 993
Accumulated funds per member at 31 December (R)	27 773	26 986
Return on investments	6.51%	4.18%
Reserves per beneficiary (R)	15 911	15 213

**ENGEN MEDICAL BENEFIT FUND
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2016 (continued)**

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

5.2 Results of operations

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

5.3 Accumulated funds ratio

	2016	2015
	R	R
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per statement of financial position	119 123 885	118 005 118
Less: Revaluation reserve	<u>(20 251 498)</u>	<u>(19 477 859)</u>
Accumulated funds per Regulation 29	<u>98 872 387</u>	<u>98 527 259</u>
Gross contributions	<u>202 670 597</u>	<u>191 408 259</u>
Accumulated funds ratio	<u>48.78%</u>	<u>51.47%</u>

5.4 Reserve accounts

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

5.5 Revaluation reserve

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

5.6 Outstanding claims

Movements on the outstanding claims provision are set out in Note 6 to the summarised annual financial statements.

6. ACTUARIAL SERVICES

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

7. EVENTS AFTER REPORTING DATE

There have been no events that have occurred between the end of the accounting period and the date of the approval of these summarised annual financial statements that the Trustees consider should be brought to the attention of the members of the Fund.

8. CHANGE IN ADMINISTRATION PLATFORM

MMI Health (formerly known as Metropolitan Health), the Administrator for the Engen Medical Benefit Fund, recently changed its administration system. The data migration from reflections to I-Square was initiated on the 8th of December 2016 and concluded on the 18th of December 2016. Administration on the new platform commenced on the 19th of December 2016. The transition to the new platform has resulted in delays in claims processing. The provision for outstanding claims at year-end was accordingly adjusted to account for the higher percentage of outstanding claims.

**ENGEN MEDICAL BENEFIT FUND
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2016 (continued)**

9. AUDIT COMMITTEE

An Audit Committee was established in accordance with the provisions of the Medical Schemes Act No. 131 of 1998, as amended. The committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The committee consists of seven members of which two are members of the Board of Trustees. The majority of the members are not officers of the Fund or its third party Administrator. The committee met on two occasions during the year, as follows:

- 20 April 2016
- 11 November 2016.

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

At 31 December 2016, the Audit Committee comprised:

- | | |
|-----------------|------------------------------|
| - Mr A Bryce | Elected member (Chairperson) |
| - Ms L Prins | Elected member |
| - Mr F Bobbert | Elected member |
| - Mr N Sithebe | Elected member |
| - Mr N Ngema | Trustee |
| - Mr R Marchant | Trustee |
| - Ms X Dziba | Elected member |

10. PROFESSIONAL INDEMNITY/FIDELITY/TRUSTEES AND OFFICERS INSURANCE

In accordance with the rules, the Fund has insurance to cover these risks. On 31 December 2016, the total cover was R10 million (2015: R10 million).

11. GOING CONCERN

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

- The reserve ratio at year-end was 48.78%
- Available cash and investment resources at year-end was in excess of R134 million.

12. AUDITORS

The Audit Committee recommended to the Board to appoint KPMG Inc. as the Fund's external auditor. The Board approved the appointment of KPMG Inc. on 21 May 2015.

**ENGEN MEDICAL BENEFIT FUND
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2016 (continued)**

13. BOARD OF TRUSTEES AND AUDIT COMMITTEE MEETING ATTENDANCE

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

Trustee/Sub-committee member	Board meetings		Audit Committee meetings		Investment Committee meetings	
	A	B	A	B	A	B
A Bennetts (appointed 14 June 2016)	2	1	-	-	-	-
A Bryce	-	-	2	1	-	-
F Bobbert	-	-	2	2	3	2
P Du Plooy	-	-	2	1	-	-
A Pienaar	-	-	2	1	-	-
L Shaw	4	4	-	-	3	3
R Marchant	4	3	2	2	3	3
L Prins (appointed 18 November 2016)	-	-	-	-	-	-
N Sithebe (appointed 18 November 2016)	-	-	-	-	-	-
Z Dziba (appointed 1 September 2016)	-	-	1	1	-	-
S Abrahams	4	4	-	-	3	2
N Salie (Principal Officer)*	4	4	2	2	3	3
Dr A Gray	4	4	-	-	-	-
G King	4	2	-	-	-	-
N Ngema	4	3	-	-	-	-
N Zungu (resigned 31 August 2016)	2	1	-	-	-	-
D Mokotjo	4	3	-	-	-	-
M Lund (resigned 31 August 2016)	2	2	-	-	-	-
S Chili (appointed 1 September 2016)	2	2	-	-	-	-
V Zondani	4	2	-	-	-	-

A - Total possible number of meetings could have attended

B - Actual number of meetings attended

* By invitation in his capacity as Principal Officer

14. NON-COMPLIANCE WITH THE MEDICAL SCHEMES ACT

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

Nature and impact

The Fund holds shares in MMI Holdings Ltd, Discovery 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 these shares.

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

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. 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, 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), schemes may establish an application process. Pre-registration or pre-authorisation are appropriate and practical for chronic disease lists (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.

14.3 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 2016, there were contribution debtors outstanding for more than 30 days to the amount of R95 725. This amount represents 0.05% of the total contributions received during the year, but the delay in receipt is in contravention of Section 26(7) of the Act.

Cause of 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**

Independent Auditor's Report on Summary Financial Statements

To the members of the Engen Medical Benefit Fund

Opinion

The summary financial statements of Engen Medical Benefit Fund, as set out on pages 15 to 28, which comprise the summary statement of financial position as at 31 December 2016, and the summary statements of comprehensive income, summary statement of changes in members' funds and summary cash flows for the period then ended, and related notes, are derived from the audited financial statements of Engen Medical Benefit Fund (the Fund) for the period ended 31 December 2016.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with the content and disclosure requirements of Circular 6 of 2013 issued by the Council for Medical Schemes.

Summary financial statements

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 and the auditor's report thereon. The summary financial statements and audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

The audited financial statements and our report thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated 26 April 2017. That reports also includes:

- The communication of key audit matters

Trustees' responsibility for the summary financial statements

The Trustees are responsible for the preparation of the summary 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 whether the summary financial statements are consistent, in all material respects, with the audited 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.

KPMG Inc



Per L September
Chartered Accountant (SA)
Registered Auditor
Director

2 May 2017

ENGEN MEDICAL BENEFIT FUND
SUMMARISED STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

ASSETS	Notes	2016 R	2015 R
Non-current assets			
Available-for-sale investments		112 563 363	107 329 758
Current assets			
Trade and other receivables		41 132 169 1 731 585	38 483 303 1 465 629
Cash and cash equivalents		22 248 946	20 400 325
Investment of personal medical savings account trust monies		17 151 638	16 617 349
Total assets		<u>153 695 532</u>	<u>145 813 061</u>
FUNDS AND LIABILITIES			
Members' funds			
Accumulated funds		119 123 885 98 872 387	118 005 118 98 527 259
Revaluation reserve		20 251 498	19 477 859
Current liabilities			
Personal medical savings account trust monies		34 571 647 17 768 679	27 807 943 17 429 774
Trade and other payables		4 056 722	2 054 955
Outstanding claims provision	6	12 746 246	8 323 214
Total funds and liabilities		<u>153 695 532</u>	<u>145 813 061</u>

ENGEN MEDICAL BENEFIT FUND
SUMMARISED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Notes	2016 R	2015 R
Risk contribution income	7	182 391 196	172 267 318
Relevant healthcare expenditure		(180 895 295)	(162 984 115)
Net claims incurred		(181 225 431)	(163 167 121)
Risk claims incurred	8	(174 763 812)	(157 549 342)
Managed care: management services	9	(6 461 619)	(6 005 868)
Third-party claim recoveries		-	388 089
Net income on risk transfer arrangement	10	330 136	183 006
Risk transfer arrangements fee		(817 298)	(764 863)
Recoveries received on risk transfer arrangements		1 147 434	947 869
Gross healthcare result		1 495 900	9 283 203
Administration expenditure		(8 634 434)	(8 259 023)
Net impairment losses on healthcare receivables		(96 061)	(56 846)
Net healthcare result		(7 234 595)	967 334
Other income		9 290 448	8 804 694
Investment income		8 047 312	7 447 536
Interest on personal medical savings account trust monies		1 076 846	850 476
Net realised gain	11	-	5 986
Sundry income		166 290	500 696
Other expenditure		(1 710 725)	(1 409 040)
Asset management fees		(357 070)	(558 564)
Interest paid on personal medical savings account trust monies		(1 076 846)	(850 476)
Net realised loss	11	(276 809)	-
Net surplus for the year		345 128	8 362 988
Other comprehensive income/(expense)			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Fair value adjustment on available-for-sale investments		773 639	(2 267 299)
Total comprehensive income for the year		1 118 767	6 095 689

ENGEN MEDICAL BENEFIT FUND
SUMMARISED STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2016

	Accumulated funds R	Revaluation reserve R	Total members' funds R
Balance as at 1 January 2015	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)
Balance as at 31 December 2015	<u>98 527 259</u>	<u>19 477 859</u>	<u>118 005 118</u>
Balance as at 1 January 2016	98 527 259	19 477 859	118 005 118
Net surplus for the year	345 128	-	345 128
Movement on revaluation of available-for-sale investments	-	773 639	773 639
Balance as at 31 December 2016	<u>98 872 387</u>	<u>20 251 498</u>	<u>119 123 885</u>

ENGEN MEDICAL BENEFIT FUND
SUMMARISED STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	2016	2015
	R	R
CASH FLOWS FROM OPERATING ACTIVITIES		
Net surplus for the year	345 128	8 362 988
Adjustments for:		
Investment income	(8 047 312)	(7 447 536)
Interest on personal medical savings account trust monies	(1 076 846)	(850 476)
Interest paid on personal medical savings account trust monies	1 076 846	850 476
Impairment losses	96 061	56 846
Cost incurred in managing investments	357 070	558 564
Net realised loss/(gain)	276 809	(5 986)
Cash flows from operations before working capital changes	(6 972 244)	1 524 876
Working capital changes:		
Increase in accounts receivable	(253 369)	(259 816)
Decrease in accounts payable	2 001 767	(924 291)
Increase in investment of personal savings account trust monies	(737 941)	1 164 874
Increase in outstanding claims provision	4 423 032	2 902 342
	5 433 489	2 883 109
Cash flows from operating activities	(1 538 755)	4 407 985
Interest received	1 921 665	1 620 026
Net cash flows from operating activities	382 910	6 028 011
CASH FLOWS FROM FINANCING ACTIVITIES		
Withdrawal of available-for-sale investments	2 000 000	-
Net cash flows from investing activities	2 000 000	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	2 382 910	6 028 011
Cash and cash equivalents at the beginning of the year	37 017 674	30 989 663
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	39 400 584	37 017 674
Fund	22 248 946	20 400 325
Personal medical savings account trust monies	17 151 638	16 617 349

ENGEN MEDICAL BENEFIT FUND
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the summarised 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 summarised 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

There have been no events that have occurred between the end of the accounting period and the date of the approval of these summarised annual financial statements that the Trustees consider should be brought to the attention of the members of the Fund.

4. CONTINGENT ASSET

At 31 December 2016, the Fund has a contingent asset to the value of R4 286 276 (2015: R4 175 750). 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 2016 financial year. Income will be recognised, as and when the recoveries are paid over to the Fund. In 2016, the Fund had no recoveries (2015: R388 089) 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	Postal address
Parc du Cap 7 Mispel Road Bellville 7530	PO Box 4313 Vlaeberg 8001

6. OUTSTANDING RISK CLAIMS PROVISION

	Covered by risk transfer arrangements	Not covered by risk transfer arrangements
2016		
Provision for outstanding risk claims	<u>74 406</u>	<u>12 671 840</u>
<i>Analysis of movements in outstanding risk claims</i>		
Balance at the beginning of the year	57 168	8 266 046
Payments in respect of the prior year	<u>(57 168)</u>	<u>(8 267 236)</u>
Over provision in respect of the prior year	-	(1 190)
Adjustment for the current year	<u>74 406</u>	<u>12 673 030</u>
Balance at the end of the year	<u><u>74 406</u></u>	<u><u>12 671 840</u></u>
<i>Analysis of outstanding risk claims provision</i>		
Estimated gross claims	-	13 439 726

ENGEN MEDICAL BENEFIT FUND
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2016 (continued)

6. OUTSTANDING RISK CLAIMS PROVISION (CONTINUED)

Analysis of outstanding risk claims provision (continued)

	Covered by risk transfer arrangements	Not covered by risk transfer arrangements
Outstanding claims provision relating to risk transfer arrangement	74 406	-
Less: Estimated recoveries from savings plan accounts	-	(767 886)
Balance at the end of the year	<u>74 406</u>	<u>12 671 840</u>
Total outstanding risk claims provision		<u><u>12 746 246</u></u>

2015

Provision for outstanding risk claims	<u>57 168</u>	<u>8 266 046</u>
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Analysis of movements in outstanding risk claims

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 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>

Analysis of outstanding risk claims provision

Estimated gross claims	-	8 362 249
Outstanding claims provision relating to risk transfer arrangement	57 168	-
Less: Estimated recoveries from savings plan accounts	-	(96 203)
Balance at the end of the year	<u>57 168</u>	<u>8 266 046</u>

Total outstanding risk claims provision		<u><u>8 323 214</u></u>
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Assumptions and sensitivities

Process used to determine the assumptions

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

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

ENGEN MEDICAL BENEFIT FUND
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2016 (continued)

6. OUTSTANDING RISK CLAIMS PROVISION (CONTINUED)

Assumptions and sensitivities (continued)

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

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

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

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

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

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

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

	2016	2015
	%	%
Claims outstanding for:		
- December	71%	6%
- November	9%	2%
- October	3%	1%
- September	0.8%	0.4%
- August and prior	0.0%	0.4%

Changes in the assumptions used will have the following impact:

	2016	2015
	R	R
- Effect of a 1% change in assumptions	1 069 498	697 651
- Effect of a 2% change in assumptions	2 161 319	1 409 863
- Effect of a 3% change in assumptions	3 276 166	2 137 096

The Fund believes that the provision for claims not reported at year-end in the summarised statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions, which could differ when the claims arise.

ENGEN MEDICAL BENEFIT FUND
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2016 (continued)

7. RISK CONTRIBUTION INCOME

	2016	2015
	R	R
Gross contributions per registered rules	202 670 597	191 408 259
Less: Savings contributions received*	<u>(20 279 401)</u>	<u>(19 140 941)</u>
	<u><u>182 391 196</u></u>	<u><u>172 267 318</u></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	181 021 664	165 471 313
Movement in outstanding risk claims provision	12 673 030	8 001 195
- Under/(over) provision in prior year	<u>1 190</u>	<u>(264 851)</u>
- Provision for current year	<u>12 671 840</u>	<u>8 266 046</u>
	<u>193 694 694</u>	<u>173 472 508</u>
Less:	20 078 316	16 871 035
- Savings plan claims paid*	<u>20 047 119</u>	<u>16 808 367</u>
- Discount received on claims	<u>31 197</u>	<u>62 668</u>
	<u>173 616 378</u>	<u>156 601 473</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.

Claims incurred in respect of risk transfer arrangement

	2016	2015
	R	R
Current year claims in respect of risk transfer arrangement	1 073 028	890 701
Movement in outstanding risk claims provision	74 406	57 168
- Provision for the current year	<u>74 406</u>	<u>57 168</u>
	<u>1 147 434</u>	<u>947 869</u>
	<u><u>174 763 812</u></u>	<u><u>157 549 342</u></u>

ENGEN MEDICAL BENEFIT FUND
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2016 (continued)

9. MANAGED CARE: MANAGEMENT SERVICES

	2016	2015
	R	R
Disease risk management	1 404 799	1 345 037
Medicine risk management	594 499	569 476
Hospital management programme	1 778 023	1 538 777
Prescribed minimum benefit programme	301 901	289 203
Oncology management	183 203	175 605
Metropolitan Health Risk pharmacy benefit management	321 070	307 557
HIV risk management	1 704 281	1 615 430
Pharmacy network	173 843	164 783
	<u>6 461 619</u>	<u>6 005 868</u>

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

Premiums paid	817 298	764 863
Recoveries received (Note 8)	<u>(1 147 434)</u>	<u>(947 869)</u>
	<u>(330 136)</u>	<u>(183 006)</u>

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 (LOSS)/GAINS

Realised (loss)/gains on changes in positions of portfolios	<u>(276 809)</u>	<u>5 986</u>
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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.

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

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

ENGEN MEDICAL BENEFIT FUND
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2016 (continued)

13. RELATED PARTY TRANSACTIONS

Parties with significant influence over the Fund

Metropolitan Health Corporate (Pty) Ltd has significant influence over the Fund, as they provide 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 do 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 earn multiply points and can 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 Board of Trustees, the Principal Officer and members of sub-committees.

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

Transactions with related parties

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

Key management personnel (Board of Trustees, fund managers, medical advisors, Principal Officer and executive committee) and their close family members

	2016	2015
	R	R
Statement of comprehensive income		
Contributions received	607 010	679 807
Claims incurred	614 237	381 633
Medical advisor - Dr Davidson	226 698	213 866
Statement of financial position		
Personal medical savings account trust monies	105 444	-
Medical advisor - Dr Davidson	18 891	-

The Principal Officer, Trustees and committee members did not receive any fees from the Fund for the years ended 2016 and 2015.

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.

ENGEN MEDICAL BENEFIT FUND
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2016 (continued)

13. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

	2016	2015
	R	R
Statement of comprehensive income		
Administration fees - Metropolitan Health Corporate (Pty) Ltd	7 032 077	6 735 993
Managed care fees - Metropolitan Health Risk Management (Pty) Ltd	6 461 619	6 005 868
Consulting fees - Alexander Forbes Financial Services (Pty) Ltd	408 348	408 348
Wellness programme administration fees - Momentum Interactive (Pty) Ltd	310 246	295 652
Statement of financial position		
Management care fees - Metropolitan Health Risk Management (Pty) Ltd	1 594 322	498 480
Actuarial fees - Alexander Forbes Financial Services (Pty) Ltd	68 058	34 029
Postage fees - Metropolitan Health Corporate (Pty) Ltd	23 575	-
Wellness programme administration fees - Momentum Interactive (Pty) Ltd	51 190	49 613

Terms and conditions of the administration agreement

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

Terms and conditions of the managed care agreement

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

Terms and conditions of the consulting fees

The consulting fee is 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.

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:

ENGEN MEDICAL BENEFIT FUND
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2016 (continued)

14. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

Fair value of financial assets by hierarchy level (continued)

- 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 is 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:

As at 31 December 2016	Level 1 R	Level 2 R	Level 3 R	Reclassification R
Cash	8 639 244	-	-	-
Equities	31 378 968	-	-	-
Bonds	5 138 899	34 580 058	-	-
Listed property	6 308 099	-	-	-
Money-market instruments	-	26 518 095	-	-
Total	51 465 210	61 098 153	-	-

As at 31 December 2015	Level 1 R	Level 2 R	Level 3 R	Reclassification R
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	-	-
Total	45 720 412	61 609 346	-	-

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 summarised statement of financial position but their carrying value approximates fair value due to their short-term nature.

ENGEN MEDICAL BENEFIT FUND
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2016 (continued)

15. NON-COMPLIANCE WITH THE MEDICAL SCHEMES ACT

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

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

Nature and impact

The Fund holds shares in MMI Holdings Ltd, Discovery 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 these 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 prescribed minimum benefits (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, 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) schemes may establish an application process. Pre-registration or pre-authorisation are appropriate and practical for chronic disease lists (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 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 2016, there were contribution debtors outstanding for more than 30 days to the amount of R95 725. This amount represents 0.05% of the total contributions received during the year, but the delay in receipt is in contravention of Section 26(7) of the Act.

Cause of 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.

ENGEN MEDICAL BENEFIT FUND
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2016 (continued)

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

15.3 Contravention of section 26(7) of the Medical Schemes Act (continued)

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.