



**MOTO HEALTH CARE**

**REGISTRATION NUMBER: 1600**

**SUMMARISED ANNUAL FINANCIAL STATEMENTS**

**31 DECEMBER 2009**

## **MOTO HEALTH CARE**

### **SUMMARISED ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2009

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## **MOTO HEALTH CARE**

### **REPORT OF THE BOARD OF TRUSTEES**

for the year ended 31 December 2009

### **COMPLETE SET OF AUDITED ANNUAL FINANCIAL STATEMENTS**

Interested parties may obtain a complete set of the audited annual financial statements by contacting the Principal Officer.

### **DESCRIPTION OF THE MEDICAL FUND**

The Moto Health Care Medical Fund is a not for profit restricted membership Medical Fund, registered in terms of the South African Medical Schemes Act 131 of 1998, as amended.

The Fund which previously provided 7 benefit options to its members, now provides 5 options :

Optimum option  
Classic option  
Hospicare option  
Custom option  
Essential option

For the year under review, the Fund entered into a risk transfer arrangement with Carecross to provide basic primary care to the members on the Essential and Custom options. The service is billed at NRPL rates and the difference between the services provided and the fixed amount paid is the risk transfer profit or loss. Further details of the financial results of this arrangement are set out in Note 3 to the summarised annual financial statements.

### **BOARD OF TRUSTEES IN OFFICE DURING THE YEAR UNDER REVIEW**

B Canning	Chairman (Employer Representative)
A De Witt	Employer Representative
A van der Rheede	Employee Representative (appointed November 2009)
E Kubheka	Employee Representative
M Minnaar	Employer Representative
J Mthimunye	Employee Representative (appointed November 2009)
L Ockhuis	Employee Representative (Resigned July 2009)
J Olivier	Employer Representative
M Roberts	Employer Representative
X Samana	Employee Representative (appointed March 2009)
S Tsiane	Employee Representative

### **PRINCIPAL OFFICER**

Mrs M Khan  
279 Kent Avenue  
Randburg  
2125

PO Box 3882  
Randburg  
2125

## **MOTO HEALTH CARE**

### **REPORT OF THE BOARD OF TRUSTEES (continued)**

for the year ended 31 December 2009

#### **REGISTERED OFFICE AND POSTAL ADDRESS OF THE FUND**

##### **Street Address**

279 Kent Avenue  
Randburg  
2125

##### **Postal Address**

PO Box 3882  
Randburg  
2125

#### **ADMINISTRATOR**

Momentum Medical Scheme Administrators (Pty) Ltd, a wholly-owned subsidiary of the Momentum Group Ltd

1 - 3 Canegate Road

PO Box 2338

La Lucia Ridge  
4019

Durban  
4000

#### **INVESTMENT MANAGERS**

Selekhane Asset Consultants  
Ground Floor, Lansdown House  
Hampton Park  
20 Georgian Crescent  
Bryanston  
2152

PO Box 522118  
Saxonwold  
2132

FSP number : 29848

#### **ACTUARIES**

Toth Resources  
43 French Lane (off  
Kelvin Drive)  
Morningside  
2196

PO Box 70929  
Bryanston  
2021

#### **AUDITORS**

Ernst & Young Inc  
1 Pencarrow Crescent  
Pencarrow Park  
La Lucia Ridge  
4019

PO Box 859  
Durban  
4000

#### **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 Board of Trustees believe should be brought to the attention of the members. The accumulated funds ratio at 31 December 2009 was 38.5% (2008: 38.4%).

## **MOTO HEALTH CARE**

### **REPORT OF THE BOARD OF TRUSTEES (continued)**

for the year ended 31 December 2009

#### **REVIEW OF THE YEAR'S ACTIVITIES**

The results of the Fund are set out in the attached summarised annual financial statements, and the Board of Trustees believes that no further clarification is needed.

#### **SOLVENCY RATIO**

The solvency ratio is calculated on the following basis:

	<b>2009</b>	<b>2008</b>
	<b>R'000</b>	<b>R'000</b>
Total members' funds per statement of financial position	330 789	315 413
Less: Cumulative unrealised net (gains) on re-measurement to fair value of financial instruments	-	-
Accumulated funds per Regulation 29	<u>330 789</u>	<u>315 413</u>
Gross contributions	<u>859 269</u>	<u>821 090</u>
Solvency ratio (Accumulated funds/Gross annual contribution income x 100)	<u>38.5%</u>	<u>38.4%</u>

#### **INVESTMENT STRATEGY OF THE MEDICAL FUND**

The Fund's investment objectives are to maximise the return on its investments on a long term basis at minimal risk. The investment strategy takes into consideration both constraints imposed by legislation and those imposed by the Board of Trustees.

The Fund appointed an asset consultant and has mandated the consultant to ensure that :

- the fund remains liquid;
- investments are placed at minimum risk with the best possible return; and
- investments made are in compliance with the regulations of the Act

Whilst the Fund has remained invested in cash and fixed deposits during the year, it will be diversifying its risk going into the new year.

## **MOTO HEALTH CARE**

### **REPORT OF THE BOARD OF TRUSTEES (continued)**

for the year ended 31 December 2009

#### **INSURANCE RISK MANAGEMENT**

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. This risk relates to the health of the fund 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 and case management, service provider profiling, centralised management of risk transfer arrangements, and the monitoring of emerging issues.

The fund uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims 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 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 funds' cash flows.

#### **OUTSTANDING CLAIMS**

Movements in the outstanding claims provision are set out in Note 2 to the summarised annual financial statements. There have been no unusual movements that the Board of Trustees believes should be brought to the attention of the members.

#### **RELATED PARTY TRANSACTIONS**

Refer to related party disclosure in note 7 to the summarised annual financial

#### **INVESTMENTS IN AND LOANS TO PARTICIPATING EMPLOYERS OF MEMBERS OF THE MEDICAL FUND AND OTHER RELATED PARTIES**

The medical fund holds no investments in or loans to participating employers of medical fund members or other related parties.

## MOTO HEALTH CARE

### REPORT OF THE BOARD OF TRUSTEES (continued)

for the year ended 31 December 2009

The following schedule sets out the composition of the Board of Trustees and audit committee, and their respective meeting attendances.

	Steering Committee Meetings		Audit Committee Meetings	
	A	B	A	B
B Canning	10	9		
A De Witt	10	8		
A van der Rheede	1	-		
E Kubheka	10	5		
M Minnaar	10	9		
J Mthimunye	9	2		
L Ockhuis	7	6		
J Olivier	10	9		
M Roberts	10	8	8	8
X Samana	9	8		
S Tsiane	10	5	8	4
V Beck (audit committee chairman)			8	6
G Franck			8	8
D Molema			8	5

A - total possible number of meetings could have attended

B - actual number of meetings attended

### AUDIT COMMITTEE

An audit committee was established in accordance with the provisions of the Medical Schemes Act 131 of 1998. The Board of Trustees mandates the audit committee by means of written terms of reference as to its membership, authority, and duties. The committee consisted of five members of which two are members of the Board of Trustees. The majority of the members, including the chairperson, are not officers of the fund. The committee met on eight occasions during the year under review.

The chairperson of the Medical Scheme Board of Trustees, the principal officer, financial manager of the medical fund, the internal and external auditors attend all 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 internal and external auditors formally report to the committee on critical findings arising from the audit activities.

The audit committee presently comprises of the following:

V Beck (Independent Chairman)  
G Franck (Independent)  
D Molema (Independent)  
M Roberts (Trustee)  
S Tsiane (Trustee)

**MOTO HEALTH CARE**

**REPORT OF THE BOARD OF TRUSTEES (continued)**

for the year ended 31 December 2009

**OPERATIONAL STATISTICS**

	2009					
	Essential Option	Custom Option	Hospicare Option	Classic Option	Optimum Option	Total Scheme
Number of members at the end of the accounting period	7 940	9 334	3 111	15 796	2 935	39 116
Number of beneficiaries at the end of the accounting period	18 480	22 414	5 587	37 613	6 802	90 896
Average number of members for the accounting period	8 851	10 668	3 714	16 566	3 109	42 907
Average number of beneficiaries for the accounting period	20 572	25 672	6 692	39 621	7 225	99 783
Average net contribution per beneficiary per month (pbpm)	R130	R374	R641	R1 056	R1 824	R718
Pensioner ratio (beneficiaries age > 65)	0.4%	1.9%	19.8%	8.8%	11.6%	6.3%
Average age per beneficiary	28.05	27.65	38.74	34.58	40.43	33.89
Relevant healthcare expenditure per average beneficiary	R1 202	R2 891	R7 464	R11 390	R22 445	R7 640
Non healthcare expenditure per average beneficiary	R424	R760	R1 404	R1 344	R1 849	R1 045
Average accumulated funds per member at the end of the accounting period						R8 457
Dependants per member at the end of the accounting period	1.33	1.40	0.80	1.38	1.32	1.32
Return on investments as a % of investments						5%
Non healthcare expenditure as a percentage of gross contributions	27%	17%	18%	11%	8%	12%
Relevant healthcare expenditure as a percentage of gross contributions	77%	64%	97%	90%	103%	89%

# - ratio not presented per policy

**MOTO HEALTH CARE**

**REPORT OF THE BOARD OF TRUSTEES (continued)**

for the year ended 31 December 2009

**OPERATIONAL STATISTICS**

	2008							Total Scheme	
	Casual Option	Dynamic Option	Prudent Option	Basic B Option	Basic A Option	Classic Option	Optimum Option		
Number of members at the end of the accounting period	542	11 658	11 777	5 696	3 777	16 653	3 729	53 832	
Number of beneficiaries at the end of the accounting period	1 202	27 185	30 111	10 871	7 372	41 619	8 882	127 242	
Average number of members for the accounting period	492	11 632	11 654	5 604	3 763	16 682	3 772	53 599	
Average number of beneficiaries for the accounting period	1 082	26 896	29 730	10 588	7 324	41 695	8 981	126 296	
Average net contribution per beneficiary per month (pbpm)	R204	R238	R627	R752	R1 144	R2 201	R3 451	R8 617	
Pensioner ratio (beneficiaries age > 65)								4.4%	#
Average age per beneficiary								28.17	#
Relevant healthcare expenditure per average beneficiary	R541	R992	R2 967	R4 429	R7 558	R10 191	R16 458	R6 259	
Non healthcare expenditure per average beneficiary	R438	R605	R476	R1 096	R1 218	R1 272	R1 745	R951	
Average accumulated funds per member at the end of the accounting period								R5 859	#
Dependants per member at the end of the accounting period	1.22	1.33	1.56	0.91	0.95	1.50	1.38	1.36	
Investment income as % of average accumulated funds								6.4%	#
Non healthcare expenditure as a percentage of gross contributions	39%	49%	16%	23%	17%	12%	10%	15%	
Relevant healthcare expenditure as a percentage of gross contributions	49%	80%	101%	93%	107%	96%	95%	96%	

# - ratio not presented per policy

## **MOTO HEALTH CARE**

### **REPORT OF THE BOARD OF TRUSTEES (continued)**

for the year ended 31 December 2009

#### **ACTUARIAL SERVICES**

The fund's actuaries were consulted during the year in the determination of the contribution and benefit levels for the 2010 year as well as in the determination of the provision for claims (IBNR).

#### **FIDELITY COVER**

The scheme has fidelity cover in place and the premiums are fully paid up.

#### **EVENTS AFTER REPORTING DATE**

There are no significant events after reporting date, 31 December 2009, to report on.

#### **NON-COMPLIANCE WITH MEDICAL SCHEMES ACT 131 of 1998**

The following areas of non-compliance of the Medical Schemes Act 131, 1998 were identified during the course of the year, none of which were, in the opinion of the Board of Trustees of a significant nature:

##### **1. Benefit options in loss making position**

###### **Nature and cause of non-compliance**

In terms of the Medical Schemes Act and specifically Section 33 (2) it is a requirement that each individual benefit option should be financially sound.

The fund has benefit options that are in a loss making position at a net healthcare result level at year end and are therefore indirectly subsidised by the other benefit options.

###### **Possible impact of non-compliance**

The contravention of the Act may be to the detriment of the members on the lower benefit plan.

###### **Corrective course of action adopted to ensure compliance, including the timing of the corrective action**

The fund has notified the Council for Medical Schemes (CMS) of the challenge it has with low income options and CMS was also involved during the budget process so that the fund could demonstrate its difficulties in providing benefits.

##### **2. Contributions received within 3 days of becoming due**

###### **Nature and cause of non-compliance**

In terms of the Medical Schemes Act and specifically Section 26(7) it is a requirement that contributions should be received within three days of becoming due.

During the year under review there were instances where premiums were not received within the three days as prescribed by the Act.

###### **Possible impact of non-compliance**

The contravention of the Act could lead to contributions not being received.

## **MOTO HEALTH CARE**

### **REPORT OF THE BOARD OF TRUSTEES (continued)**

for the year ended 31 December 2009

#### **Corrective course of action adopted to ensure compliance, including the timing of the corrective action**

The fund through its administrators has implemented adequate credit control policies and procedures to minimize the risk of non recoverability. The risk is considered insignificant by the Board of Trustees.

#### **3. Claims paid within 30 days of receipt Nature and cause of non-compliance**

In terms of the Medical Schemes Act and specifically Section 59(2) it is a requirement that claims should be paid within 30 days of receipt thereof. Claims are generally paid within this 30 day requirement, but, due to certain procedures such as clinical auditing, there are exceptions where certain claims are paid after 30 days of date of receipt.

#### **Possible impact of non-compliance**

The contravention of the Act could lead to service providers no longer providing services needed by the fund.

#### **Corrective course of action adopted to ensure compliance, including the timing of the corrective action**

The fund has acknowledged that since it only applies to a small percentage of claims where such procedures are necessary to validate claims, this risk is considered insignificant.

#### **4. Limitation of assets Nature and cause of non-compliance**

In terms of the Medical Schemes Act and specifically Regulation 30 it is a requirement that no more than 35% of fund investment should be invested in a single bank. During the year under review, there were instances in the first three months of the year where more than 35% of investments were invested in a single bank.

This was due to long term investments that needed to mature.

#### **Possible impact of non-compliance**

The contravention of the Act could lead to the risk to the fund being too high in terms of not spreading the investment risk.

#### **Corrective course of action adopted to ensure compliance, including the timing of the corrective action**

The CMS were made aware of this situation and the fact that it was a temporary situation. The fund has now appointed Sele Kane Investment Consultants to assist the Board of Trustees to keep track of the regulatory requirements in terms of the fund's investments.

## **MOTO HEALTH CARE**

### **REPORT OF THE BOARD OF TRUSTEES (continued)**

for the year ended 31 December 2009

#### **5. Financial Management**

##### **Nature and cause of non-compliance**

In terms of the Medical Schemes Act and specifically Section 35 it is a requirement that the fund shall not allow its bank accounts to go into overdraft.

The fund went into overdraft for a day during the financial year. This was due to contributions not being received timeously as expected by the fund, and a payment run being effected thus resulting in an overdraft position. Contributions were received the following day and the overdraft position was thus resolved.

##### **Possible impact of non-compliance**

The contravention of the Act could lead to interest charges by the bank, and / or action by the CMS.

##### **Corrective course of action adopted to ensure compliance, including the timing of the corrective action**

The fund has resolved to access their cash resources whenever a payment run is due, thus not relying on contribution to be received timeously in order to make the payment. This has been in operation since the incident noted above and has ensured that the fund continues to be in compliance with this section of the Act.

##### **GENERAL**

There is currently litigation in process to recover the money owed to the Fund by Calabash.

The Chairperson of the Board of Trustees would like to thank the Board of Trustees members and the members of the audit committee for the positive and meaningful contributions during the year.

## **MOTO HEALTH CARE**

### **SUMMARISED ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2009

#### **STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES**

The Board of Trustees is responsible for the preparation, integrity and fair presentation of the summarised annual financial statements of Moto Health Care. The annual financial statements presented on pages 15 to 26 have been prepared in accordance with International Financial Reporting Standards and the Medical Scheme's Act of South Africa and include amounts based on judgements and estimates made by management.

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

The Board of Trustees is satisfied that the information contained in the summarised annual financial statements fairly presents the results of operations and cash flows for the year then ended and the financial position of the Fund at year end. The Board of Trustees also prepared the other information included in the summarised annual financial statements.

The Board of Trustees is responsible for ensuring that proper accounting records are kept. The accounting records disclose with reasonable accuracy the financial position of the Fund which enables the Board of Trustees to ensure that the summarised annual financial statements comply with relevant legislation.

Moto Health Care operates in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing the business are being controlled.

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

The Fund's external auditor, Ernst and Young Inc. are responsible for auditing these summarised annual financial statements in terms of International Standards on Auditing and their audit report is presented on page 14.

The summarised annual financial statements were approved by the Board of Trustees on 20 May 2010 and are signed on its behalf by:

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B Canning  
Chairman

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E Kubheka  
Board of Trustees Member

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M Khan  
Principal Officer

## **MOTO HEALTH CARE**

### **SUMMARISED ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2009

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

The Moto Health Care Medical Fund is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders.

#### **STEERING COMMITTEE**

The Board of Trustees meets regularly and monitors the performance of the Fund and the administrators. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive.

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

#### **INTERNAL CONTROL**

The administrators of the Fund maintain internal controls and systems designed to provide reasonable, but not absolute, assurance as to the integrity and reliability of the annual financial statements and to adequately safeguard, verify and maintain accountability for its assets. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

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

## **MOTO HEALTH CARE**

### **SUMMARISED ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2009

#### **STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES (continued)**

##### RISK MANAGEMENT

###### Risk Assessment

The Board of Trustees used a structured methodology to assess the Fund's risks. The main risks identified by this process as at 31 December 2009 are :

- The perception that the Fund is seen as a "blue collar workers" Scheme by Group decision makers (anti selection)
- Increased broker activity since the Scheme has been registered with Council for Medical Schemes
- The Fund is reliant on 3rd parties e.g. the administrator
- Membership risk : Breakaways of super groups, lack of growth in membership, lack of retention of members (loss), exodus of young members
- Additional competition as Moto Health is a Voluntary Scheme
- Medical inflation higher than CPI

###### Risk Response

An appropriate system of internal control has been established by the Fund's administrator to manage the Scheme's significant risks. This provides reasonable assurance that the Fund's business objectives will be met, even in the event of a disastrous incident impacting on activities.

Risks are further controlled and managed by policies limiting exposure in specific areas such as finance, administration, claims handling and payments, information systems, treasury, and human resources, as well as external and internal insurance programmes.

The Fund's administrator seeks to have a sound system of internal control, based on its policies and guidelines, in all material associates and contractors. Where this is not possible, the responsible directors of the Fund's administrator seek assurance that significant risks are being managed in an acceptable manner, and provide bi-annual confirmation to the Fund's Board of Trustees that such significant risks are being effectively managed.

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B Canning  
Chairman

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E Kubheka  
Board of Trustees Member

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M Khan  
Principal Officer

20 May 2010

**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF MOTO HEALTH CARE MEDICAL FUND**

Ernst and Young Inc  
Registered Auditor  
Durban  
20 May 2010

**MOTO HEALTH CARE****STATEMENT OF FINANCIAL POSITION**

at 31 December 2009

	<b>Notes</b>	<b>2009 R</b>	<b>2008 R</b>
<b>ASSETS</b>			
<b>Non-current assets</b>		313 022	308 694
Furniture and equipment		313 022	308 694
<b>Current assets</b>		387 801 376	396 350 869
Trade and other receivables		41 178 186	53 474 386
Investments held at fair value through surplus and deficit		-	138 434 641
Cash and cash equivalents		346 623 190	204 441 842
<b>Total assets</b>		388 114 398	396 659 563
<b>FUNDS AND LIABILITIES</b>			
<b>Accumulated funds</b>		330 789 457	315 412 616
<b>Current liabilities</b>		57 324 941	81 246 947
Trade and other payables		9 241 398	17 793 995
Outstanding claims provision	2	48 083 543	63 452 952
<b>Total funds and liabilities</b>		388 114 398	396 659 563

## MOTO HEALTH CARE

### STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009

	Notes	2009 R	2008 R
<b>Net contribution income</b>	3	859 269 001	821 090 252
<b>Relevant healthcare expenditure</b>		(762 348 182)	(790 462 422)
Net claims incurred		(776 185 017)	(790 462 422)
Claims incurred		(778 348 576)	(791 349 304)
Third party claim recoveries		2 163 559	886 882
Net income on risk transfer arrangements	4	13 836 835	-
Risk transfer arrangement expenses		(56 652 485)	-
Claim recoveries from risk transfer arrangement		70 489 320	-
<b>Gross healthcare result</b>		96 920 819	30 627 830
Managed care: management services		(20 082 582)	(14 886 998)
Administration expenses		(78 695 110)	(79 973 038)
Broker service fees		(849 004)	-
Net impairment losses on healthcare receivables		(4 613 635)	(25 262 988)
<b>Net healthcare result</b>		(7 319 512)	(89 495 194)
<b>Other income</b>		22 981 353	(6 675 840)
Sundry income		6 167 031	-
Investment income		25 937 938	23 107 425
Fair value adjustment	5	(9 123 616)	(29 783 265)
<b>Other expenditure</b>		(285 000)	-
Investment management fees		(285 000)	-
<b>Net surplus/(deficit) for the year</b>		15 376 841	(96 171 034)
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income/(loss) for the year</b>		<b>15 376 841</b>	<b>(96 171 034)</b>
<b>Solvency ratio</b>		<b>38.5%</b>	<b>38.4%</b>

**MOTO HEALTH CARE**

**STATEMENT OF CHANGES IN FUNDS AND RESERVES**

for the year ended 31 December 2009

	<b>Accumulated funds R</b>
<b>Balance as at 1 January 2008</b>	411 583 650
Total comprehensive loss for the year	(96 171 034)
<b>Balance as at 31 December 2008</b>	<u>315 412 616</u>
Total comprehensive income for the year	15 376 841
<b>Balance as at 31 December 2009</b>	<u><u>330 789 457</u></u>

**MOTO HEALTH CARE****STATEMENT OF CASH FLOWS**

for the year ended 31 December 2009

	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash outflow from operations before working capital changes	(16 484 941)	(98 272 515)
Working capital changes		
- Decrease in trade and other receivables	12 296 200	30 721 480
-(Decrease)/increase in trade and other payables	(8 552 598)	2 461 321
<b>Cash flows used in operations</b>	(12 741 339)	(65 089 714)
Investment income	25 937 938	23 107 425
Investment management fees	(285 000)	-
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	12 911 599	(41 982 289)
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Proceeds on disposal of investments	129 311 025	-
Purchase of furniture and equipment	(41 276)	(8 824)
<b>NET CASH FROM / (USED IN) INVESTING ACTIVITIES</b>	129 269 749	(8 824)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	142 181 348	(41 991 113)
Cash and cash equivalents at beginning of the year	204 441 842	246 432 955
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	346 623 190	204 441 842

## MOTO HEALTH CARE

### NOTES TO THE SUMMARISED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2009

#### 1 PRINCIPAL ACCOUNTING POLICIES

These summarised annual financial statements set out on pages 15 to 26 have been prepared in conformity with International Financial Reporting Standards and the Medical Schemes Act, 1998 as amended. The summarised annual financial statements are presented in Rands, the functional currency of the fund, and all values are rounded to the nearest Rand.

##### 1.1 Basis of preparation

The financial statements are prepared on the historical cost convention, except for investments held at fair value through surplus/deficit, which are carried at fair value. The financial statements have been prepared on the going concern basis.

##### 1.2 Change in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, however the fund has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the result of operation or on the financial position of the fund but did impact on certain disclosures in the financial statements.

#### 2 OUTSTANDING CLAIMS PROVISION

Provision for outstanding claims	48 083 543	63 452 952
Provision arising from liability adequacy test	-	-
	<u>48 083 543</u>	<u>63 452 952</u>

##### Analysis of movements in outstanding claims

Balance at beginning of year	63 452 952	70 955 404
Payments in respect of prior year	(61 954 280)	(64 500 937)
Over provision in prior year	<u>1 498 672</u>	<u>6 454 467</u>
Increase in provision for the current year	46 584 871	56 998 485
Balance at end of year	<u>48 083 543</u>	<u>63 452 952</u>

##### Basis for determination of the outstanding claims provision

The outstanding claims provision is a provision for the estimated cost of healthcare benefits that have occurred before the balance sheet date but have not been reported to the Fund by that date. The provision is determined as accurately as possible based on a number of assumptions which are outlined below.

## **MOTO HEALTH CARE**

### **NOTES TO THE SUMMARISED ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2009

#### **2 OUTSTANDING CLAIMS PROVISION (continued)**

##### **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 on a regular basis. 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.

The actual method or blend of methods used varies by category of claims and observed historical claims development. To the extent that the historical claims development method is used, we assume that the historical 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 or recording of claims paid and changes in claims submission mechanisms);
- changes in composition of members and their dependents;
- changes in the economic, legal and social trends;
- variations in the nature and average cost incurred per claim; and
- random fluctuations.

Notified claims are assessed with due regard to the claim circumstances, category, anticipated development, expected seasonal fluctuations, and information available from managed care: management services. The provisions are best estimates based on the most recent information 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 (i.e. hospital (major medical benefit), chronic, and day-to-day) 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.

##### **Assumptions**

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the claim "run-off periods" for the most recent benefit years (split by discipline). The run-off factor is the expected percentage of claims paid out of total claims incurred in a specific month. This factor is then used to project the remainder of the outstanding claims relating to the specified service month. A "seasonality factor" is further incorporated into the calculation, also based on past claims experience. These assumptions have been used for assessing the outstanding claims provisions for the 2009 benefit year.

## MOTO HEALTH CARE

### NOTES TO THE SUMMARISED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2009

#### 2 OUTSTANDING CLAIMS PROVISION (continued)

##### Changes in assumptions

The table below outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. It should be noted that this is a deterministic approach with no correlations between the key variables.

Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable in the future may be required.

An analysis of sensitivity around various scenarios for the general medical insurance business provides an indication of the adequacy of the Fund's estimation process. The Fund believes that the liability for claims reported in the balance sheet is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise. Consequently, if for example the estimates of the unreceived portion of claims costs for the year was 5% inaccurate, the impact on the net surplus of the Fund would be as follows:

##### Impact on reported profits due to changes in key variables

	Change in variable	Change in liability 2009
	%	R
Hospital (major medical benefit) claims ratio	5%	330 860
Chronic claims ratio	5%	22 979
Day-to-day claims ratio	5%	58 415

This analysis has been prepared for a change in a specified variable with other assumptions remaining constant.

The sensitivity is reduced by the value of the claims paid subsequent to the year end related to the year ended 31 December, as detailed below:

	2009 R	2008 R
Outstanding claims provision	48 083 543	63 452 952
Portion of outstanding claims provision paid to date	39 840 475	55 566 101
Residual estimate of claims incurred but not paid	<u>8 243 068</u>	<u>7 886 851</u>

## MOTO HEALTH CARE

### NOTES TO THE SUMMARISED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2009

#### 3 NET CONTRIBUTION INCOME

Gross and net contributions	<u>859 269 001</u>	<u>821 090 252</u>
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#### 4 NET INCOME ON RISK TRANSFER ARRANGEMENT

##### Carecross (Pty) Ltd

Recoveries under risk transfer arrangement	70 489 320	-
Premiums paid in respect of risk transfer arrangement	(56 652 485)	-
Net income on risk transfer arrangement	<u>13 836 835</u>	<u>-</u>

Carecross (Pty) Ltd provided basic primary care to the members on the Essential and Custom options during the year.

#### 5 FAIR VALUE ADJUSTMENT

Net fair value adjustment for the year	<u>(9 123 616)</u>	<u>(29 783 265)</u>
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#### 6 CONTINGENT ASSETS

The Scheme has approximately R20 million in recoveries outstanding from the Road Accident Fund (RAF) for claims paid on behalf of members. The general likelihood of recovery of these amounts is uncertain, and the Board of Trustees have elected not to recognise a debtor on the balance sheet as any future recoveries are highly contingent on a multitude of factors. The Trustees consider, based on past experience and the current financial stability of the RAF, that the debtor, were it to be recognised would be fully impaired.

## MOTO HEALTH CARE

### NOTES TO THE SUMMARISED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2009

#### 7 RELATED PARTY TRANSACTIONS

	2009 R	2008 R
Momentum Medical Fund Administrators (Pty) Ltd, a wholly owned subsidiary of Momentum Group Ltd, as a third party administrator is deemed a related party, and received administration and managed care fees detailed as follows :		
Administration fees	59 398 742	-
Managed care fees	20 082 582	-
	<u>79 481 324</u>	<u>-</u>
Amount owing at year end	23 841	-

The Motor Industry Bargaining Council exercises significant influence over the Fund as the entity participated in some of the operations of the Fund, but does not control the Fund. There were transactions during the current year between the Fund and MIBCO. Listed below are the transactions and balances between MIBCO and the Fund.

Administration fees	518 713	2 819 605
Debt collection fees	555 000	-
Rent/Electricity & Water	361 147	551 466
Payroll administration	1 109 616	-
Trade and other receivables	-	659 132
Trade and other payables	(1 233 295)	-

Contributions billed to, contributions received from, and claims paid in respect of the Board of Trustees and the Principal Officer of the Fund during the year, were done so in accordance with the rules of the Fund and the provisions of the Medical Schemes Act. Accordingly, all Board of Trustees members and the Principal Officer were treated in the same manner by the Fund as would any member have been, at arms length.

Net contribution income received from the Board of Trustees and Principal Officer for the year was R209 221 (2008: R169 894). Net claims paid was R175 296 (2008: R296 915). The Principal officer's salary expense was R454 650 (2008: R425 502). For a breakdown of the Board of Trustees's fees and expenses, please refer Note 8.

There were no other key management personnel to the fund identified.

## MOTO HEALTH CARE

### NOTES TO THE SUMMARISED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2009

#### 8 TRUSTEE EXPENSES

##### 2009

	<b>Travel</b>	<b>Fees for meetings</b>	<b>Total</b>
	<b>R</b>	<b>R</b>	<b>R</b>
B Canning	126 736	21 388	148 124
A De Witt	-	18 226	18 226
E Kubheka	11 207	20 567	31 774
M Minnaar	13 258	31 168	44 426
J Mthimunye	13 278	3 750	17 028
L Ockhuis	30 372	18 495	48 867
J Olivier	9 995	35 250	45 245
M Roberts	106 750	56 717	163 467
X Samana	63 339	34 743	98 082
S Tsiane	14 851	48 208	63 059
	<u>389 786</u>	<u>288 512</u>	<u>678 298</u>

##### 2008

B Canning	148 953	18 953	167 906
A De Witt	-	7 483	7 483
E Kubheka	19 164	22 503	41 667
M Minnaar	22 644	22 768	45 412
L Ockhuis	9 444	19 464	28 908
J Olivier	26 204	25 193	51 397
M Roberts	9 444	29 388	38 832
S Tsiane	25 404	21 678	47 082
	<u>261 257</u>	<u>167 430</u>	<u>428 687</u>

**MOTO HEALTH CARE**

**NOTES TO THE SUMMARISED ANNUAL FINANCIAL STATEMENTS**  
for the year ended 31 December 2009

**9 SURPLUS FROM OPERATIONS PER BENEFIT OPTION**

<b>2009</b>	<b>ESSENTIAL OPTION R</b>	<b>CUSTOM OPTION R</b>	<b>HOSPICARE OPTION R</b>	<b>CLASSIC OPTION R</b>	<b>OPTIMUM OPTION R</b>	<b>TOTAL SCHEME R</b>
Net contributions	32 068 498	115 361 767	51 503 137	502 200 193	158 135 406	859 269 001
<b>Relevant healthcare expenditure</b>	(24 717 335)	(74 206 802)	(49 948 182)	(451 301 123)	(162 174 740)	(762 348 182)
Net claims incurred	(30 499 758)	(82 261 214)	(49 948 182)	(451 301 123)	(162 174 740)	(776 185 017)
Net expense on risk transfer arrangements	5 782 423	8 054 412	-	-	-	13 836 835
Risk transfer arrangement expenses	(24 747 770)	(31 904 715)	-	-	-	(56 652 485)
Recoveries from risk transfer arrangements	30 530 193	39 959 127	-	-	-	70 489 320
<b>Gross healthcare result</b>	7 351 163	41 154 965	1 554 955	50 899 070	(4 039 334)	96 920 819
Managed care: management services	(1 466 957)	(3 790 044)	(1 674 750)	(10 575 960)	(2 574 871)	(20 082 582)
Administration expenses	(5 779 364)	(14 206 366)	(7 090 905)	(41 045 295)	(10 573 180)	(78 695 110)
Broker service fees	(32 841)	(118 193)	(58 072)	(484 428)	(155 470)	(849 004)
Net impairment losses on healthcare receivables	(1 438 287)	(1 385 558)	(570 841)	(1 163 789)	(55 160)	(4 613 635)
<b>Net healthcare result</b>	(1 366 286)	21 654 804	(7 839 613)	(2 370 402)	(17 398 015)	(7 319 512)
Other income	875 839	3 169 610	1 450 756	13 275 932	4 209 216	22 981 353
Other expenditure	(10 999)	(39 545)	(19 351)	(162 883)	(52 222)	(285 000)
<b>Net surplus/deficit for the year</b>	(501 446)	24 784 869	(6 408 208)	10 742 647	(13 241 021)	15 376 841
<b>Number of members</b>	7 940	9 334	3 111	15 796	2 935	39 116

**MOTO HEALTH CARE**

**NOTES TO THE SUMMARISED ANNUAL FINANCIAL STATEMENTS**  
for the year ended 31 December 2009

**10 SURPLUS FROM OPERATIONS PER BENEFIT OPTION**

<b>2008</b>	<b>CASUAL OPTION R</b>	<b>DYNAMIC OPTION R</b>	<b>PRUDENT OPTION R</b>	<b>BASIC B OPTION R</b>	<b>BASIC A OPTION R</b>	<b>CLASSIC OPTION R</b>	<b>OPTIMUM OPTION R</b>	<b>TOTAL SCHEME R</b>
Net contributions	1 202 691	33 248 563	87 631 727	50 559 733	51 665 610	440 574 541	156 207 387	821 090 252
Net claims incurred	(585 694)	(26 693 878)	(88 198 946)	(46 891 442)	(55 355 739)	(424 929 939)	(147 806 784)	(790 462 422)
<b>Gross healthcare result</b>	616 997	6 554 685	(567 219)	3 668 291	(3 690 129)	15 644 602	8 400 603	30 627 830
Managed care: management services	(63 396)	(2 151 447)	(2 416 517)	(1 912 029)	(1 299 579)	(5 743 723)	(1 300 307)	(14 886 998)
Administration expenses	(372 466)	(11 430 280)	(10 701 402)	(8 132 235)	(6 035 589)	(33 731 543)	(9 569 523)	(79 973 038)
Net impairment losses on healthcare receivables	(37 895)	(2 695 564)	(1 023 149)	(1 556 201)	(1 589 040)	(13 556 118)	(4 805 021)	(25 262 988)
<b>Net healthcare result</b>	143 240	(9 722 606)	(14 708 287)	(7 932 174)	(12 614 337)	(37 386 782)	(7 274 248)	(89 495 194)
Other income	(10 013)	(712 311)	(270 373)	(411 232)	(419 910)	(3 582 256)	(1 269 745)	(6 675 840)
<b>Net surplus/deficit for the year</b>	133 227	(10 434 917)	(14 978 660)	(8 343 406)	(13 034 247)	(40 969 038)	(8 543 993)	(96 171 034)
<b>Number of members</b>	542	11 658	11 777	5 696	3 777	16 653	3 729	53 832