

**MOTO HEALTH CARE**  
**REGISTRATION NUMBER: 1600**  
**ANNUAL FINANCIAL STATEMENTS**  
**31 DECEMBER 2010**

## **MOTO HEALTH CARE**

### **ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2010

The reports and statements set out below comprise the annual financial statements and report of the Board of Trustees presented to members:

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## **MOTO HEALTH CARE**

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

for the year ended 31 December 2010

#### **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 Health (Pty) Ltd to provide basic primary care to the members on the Essential and Custom options, and chronic medication and specialist out of hospital treatment to members on the Custom option. 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 11 to the 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
E Kubeka	Employee Representative
M Minnaar	Employer Representative (resigned 24 February 2011)
J Mthimunye	Employee Representative
J Olivier	Employer Representative
M Roberts	Employer Representative
X Samana	Employee Representative
S Tsiane	Employee Representative

#### **PRINCIPAL OFFICER**

Mrs M Khan	
279 Kent Avenue	PO Box 3882
Randburg	Randburg
2125	2125

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

<b>Street Address</b>	<b>Postal Address</b>
279 Kent Avenue	PO Box 3882
Randburg	Randburg
2125	2125

## **MOTO HEALTH CARE**

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

for the year ended 31 December 2010

#### **ADMINISTRATOR**

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

1-3 Canegate Road  
La Lucia Ridge  
4019

PO Box 2338  
Durban  
4000

#### **INVESTMENT CONSULTANTS**

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

PO Box 522118  
Saxonwold  
2132

FSP number : 29848

#### **INVESTMENT MANAGERS**

##### **Cadiz**

25 Protea Road  
Claremont  
7708

PO Box 44547  
Claremont  
7735  
FSP number : 636

##### **Prescient**

Prescient House  
Westlake Business Park  
Otto Close Westlake  
7945

PO Box 31142  
Tokai  
7966  
FSP number : 612

##### **Taquanta**

7th Floor, Newlands Terraces  
Boundary Road  
Newlands  
7700

PO Box 23540  
Claremont  
7735  
FSP number : 918

#### **ACTUARIES**

Momentum Group Health  
Actuarial  
268 West Avenue  
Centurion  
0157

PO Box 7400  
Centurion  
0157

#### **Independent Actuary**

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

PO Box 70929  
Bryanston  
2021

## MOTO HEALTH CARE

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

for the year ended 31 December 2010

#### 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 solvency ratio at 31 December 2010 was 49.0% (2009: 38.5%).

#### REVIEW OF THE YEAR'S ACTIVITIES

The results of the Fund are set out in the attached 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>2010</b>	<b>2009</b>
	<b>R'000</b>	<b>R'000</b>
Total members' funds per statement of financial position	373,614	330,789
Less: Cumulative unrealised net gains on re-measurement to fair value of financial instruments	(4,618)	-
Accumulated funds per Regulation 29	<u>368,996</u>	<u>330,789</u>
Gross contributions	<u>752,922</u>	<u>859,269</u>
Solvency ratio	<u>49.0%</u>	<u>38.5%</u>
(Accumulated funds - Cumulative unrealised gains)/Gross annual contribution income x 100)		

#### 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

The fund has investments in money market accounts, cash and deposits, bonds, property and shares.

## **MOTO HEALTH CARE**

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

for the year ended 31 December 2010

#### **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 8 to the 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 19 to the annual financial statements.

#### **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 2010

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

	Board of Trustee Meetings		Audit Committee Meetings	
	A	B	A	B
B Canning	9	8		
A De Witt	9	8		
A van der Rheede	9	8		
E Kubeka	9	5		
M Minnaar	9	8		
J Mthimunye	9	7		
J Olivier	9	8		
M Roberts	9	6	5	4
X Samana	9	8		
S Tsiane	9	9	5	3
G Steyn			3	2
G Franck (audit committee chairman)			5	5
D Molema			5	4

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 five 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:

G Franck (Independent Chairman)

G Steyn (Independent)

(appointed June 2010)

D Molema (Independent)

M Roberts (Trustee)

S Tsiane (Trustee)

V Beck (Independent Chairman)

(resigned May 2010)

**MOTO HEALTH CARE**

**REPORT OF THE BOARD OF TRUSTEES (continued)**  
for the year ended 31 December 2010

**OPERATIONAL STATISTICS**

	2010					Total Scheme
	Essential Option	Custom Option	Hospicare Option	Classic Option	Optimum Option	
Number of members at the end of the accounting period	6,049	7,597	1,902	12,972	2,638	31,158
Number of beneficiaries at the end of the accounting period	13,618	17,874	3,364	29,634	5,929	70,419
Average number of members for the accounting period	6,373	7,754	2,011	13,535	2,735	32,408
Average number of beneficiaries for the accounting period	14,594	18,474	3,576	31,272	6,208	74,124
Average net contribution per beneficiary per month (pbpm)	R150	R408	R729	R946	R2,113	R743
Pensioner ratio (beneficiaries age > 65)	0.5%	2.9%	29.2%	10.7%	13.9%	8.1%
Average age per beneficiary	28.39	28.42	43.83	35.54	41.32	35.50
Relevant healthcare expenditure per average beneficiary	R1,182	R3,695	R8,249	R9,530	R25,334	R7,694
Non healthcare expenditure per average beneficiary	R320	R702	R1,221	R1,434	R2,104	R1,078
Average accumulated funds per member at the end of the accounting period						R11,991
Dependants per member at the end of the accounting period	1.25	1.35	0.77	1.28	1.25	1.26
Return on investments as a % of investments						8%
Non healthcare expenditure as a percentage of gross contributions	18%	14%	14%	10%	8%	10%
Relevant healthcare expenditure as a percentage of gross contributions	66%	75%	94%	67%	100%	76%

# - ratio not presented per policy

**MOTO HEALTH CARE**

**REPORT OF THE BOARD OF TRUSTEES (continued)**  
for the year ended 31 December 2010

**OPERATIONAL STATISTICS**

	2009						Total Scheme
	Essential Option	Custom Option	Hospicare Option	Classic Option	Optimum Option		
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 2010

#### **ACTUARIAL SERVICES**

The fund's actuaries were consulted during the year in the determination of the contribution and benefit levels for the 2011 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 2010, 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 Scheme.

###### **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 challenges and CMS was also involved during the budget process. The Fund is committed to rectify the situation through marketing and benefit design.

##### **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 2010

#### **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 minimise 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, derivatives are classified as "other assets" and are limited to 2.5% of the Scheme's total investments. During the year under review, there were instances in the last 4 months of the year where more than 2.5% of investments were invested in derivatives.

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

The contravention of the Act could lead to the investment risk of the fund being too high due to an inadequate spread of investments.

#### **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 intends to unwind the portfolio in which they have derivative exposure and has subsequently terminated the relationship with the asset manager.

## **MOTO HEALTH CARE**

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

for the year ended 31 December 2010

#### **LITIGATION**

There is currently litigation in process to recover the money owed to the Fund by Calabash Health Solutions (Pty) Ltd, which has been provided for in previous years.

#### **GENERAL**

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**

### **ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2010

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

The Board of Trustees is responsible for the preparation, integrity and fair presentation of the annual financial statements of Moto Health Care. The annual financial statements presented on pages 15 to 51 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 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 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 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.

Based on the results of the formal documented review of the Scheme's system of internal controls and risk management, including the design, implementation, effectiveness of internal financial controls conducted by the internal audit function during the 2010 year, considering information and explanations given by management and discussions with the external auditor on the results of the audit, assessed by the audit committee, the Board is of the opinion that the Scheme's system of internal controls and risk management is effective and that the internal financial controls form a sound basis for the preparation of reliable financial statements. The Board's opinion is supported by the audit committee.

The going concern basis has been adopted in preparing the 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 annual financial statements support the viability of the Fund.

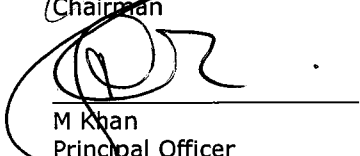
The Board of Trustees is satisfied that the information contained in the annual financial statements fairly presents the results of operations and cash flows for the year then ended and the financial position of the Fund at year end. The Board of Trustees also prepared the other information included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

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

The annual financial statements were approved by the Board of Trustees on 7 April 2011 and are signed on its behalf by:

  
E Canning  
Chairman

  
E Kubeka  
Board of Trustees Member

  
M Khan  
Principal Officer

## **MOTO HEALTH CARE**

### **ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2010

#### **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.

#### **BOARD OF TRUSTEES**

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**

**ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2010

**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. In addition to the financial risks expanded on under Note 22 to the annual financial statements, the main risks identified by this process as at 31 December 2010 are :

- The possible withdrawal of the exemptions received on the Essential and Custom options
- Increased broker activity since the Scheme has been registered with Council for Medical Schemes
- The recent merger of the Fund's administrator
- The potential loss of Trustees with knowledge
- Additional competition as Moto Health Care is a Voluntary Scheme
- Implementation of NHI
- The general economic downturn

**Risk Response**

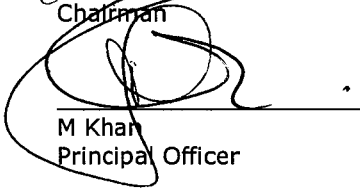
An appropriate system of internal control has been established by the Fund's administrator to manage the Scheme's significant risks. This provides reasonable assurance that the Fund's business objectives will be met, even in the event of a disastrous incident impacting on activities.

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.



\_\_\_\_\_  
B Canning  
Chairman



\_\_\_\_\_  
M Khan  
Principal Officer



\_\_\_\_\_  
E Kubeka  
Board of Trustees Member

7 April 2011

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MOTO HEALTH CARE MEDICAL FUND REPORT ON THE FINANCIAL STATEMENTS

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We have audited the accompanying financial statements of Moto Health Care Medical Fund, which comprise the statement of financial position as at 31 December, 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 15 to 51.

### Directors' responsibility for the financial statements

The fund's Board of Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Medical Schemes Act, 1998, as amended, of South Africa, and for such internal control as the Board of Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Moto Health Care Scheme as at 31 December, 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Framework, and in the manner required by the Medical Schemes Act, 1998 as amended, of South Africa.

*Ernst + Young Inc.*

Ernst & Young Inc.  
Director - Jane Oliva  
Registered Auditor  
Chartered Accountant (SA)

7 April 2011

Level two, AAA B-BBEE rating. As a recognised value adding enterprise, our clients are able to claim B-BBEE recognition of 156.25%

Chief Executive: Ajen Sita  
A full list of Directors is available from the website.

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

at 31 December 2010

	Notes	2010 R	2009 R
<b>ASSETS</b>			
<b>Non-current assets</b>			
Furniture and equipment	2	276,308	313,022
<b>Current assets</b>			
Trade and other receivables	3	33,025,102	41,178,186
Investments held at fair value through surplus and deficit	4	215,965,177	-
Cash and cash equivalents	5	181,076,084	346,623,190
<b>Total assets</b>		<b>430,342,671</b>	<b>388,114,398</b>
<b>FUNDS AND LIABILITIES</b>			
<b>Accumulated funds</b>			
		373,614,234	330,789,457
<b>Current liabilities</b>			
Savings plan liability	6	14,541,728	-
Trade and other payables	7	6,100,845	9,241,398
Outstanding claims provision	8	36,085,864	48,083,543
<b>Total funds and liabilities</b>		<b>430,342,671</b>	<b>388,114,398</b>

## MOTO HEALTH CARE

### STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

	Notes	2010 R	2009 R
Gross contributions		752,922,434	859,269,001
Savings contributions		(92,322,182)	-
<b>Net contribution income</b>	9	660,600,252	859,269,001
<b>Relevant healthcare expenditure</b>		(570,316,098)	(762,348,182)
Net claims incurred	10	(582,218,349)	(776,185,017)
Claims incurred		(584,807,835)	(778,348,576)
Third party claim recoveries		2,589,486	2,163,559
Net income on risk transfer arrangements	11	11,902,251	13,836,835
Risk transfer arrangement expenses		(50,594,101)	(56,652,485)
Claim recoveries from risk transfer arrangement		62,496,352	70,489,320
<b>Gross healthcare result</b>		90,284,154	96,920,819
Managed care: management services	12	(15,244,778)	(20,082,582)
Administration expenses	13	(63,316,717)	(78,695,110)
Broker service fees	14	(1,002,941)	(849,004)
Net impairment losses on healthcare receivables	15	(342,518)	(4,613,635)
<b>Net healthcare result</b>		10,377,200	(7,319,512)
<b>Other income</b>		34,077,467	22,981,353
Sundry income		2,971,230	6,167,031
Investment income	16	26,277,661	25,937,938
Fair value adjustment	17	4,828,576	(9,123,616)
<b>Other expenditure</b>		(1,629,890)	(285,000)
Investment management fees		(1,629,890)	(285,000)
<b>Net surplus for the year</b>		42,824,777	15,376,841
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income for the year</b>		<b>42,824,777</b>	<b>15,376,841</b>
<b>Solvency ratio</b>		<b>49.0%</b>	<b>38.5%</b>

**MOTO HEALTH CARE**

**STATEMENT OF CHANGES IN FUNDS AND RESERVES**

for the year ended 31 December 2010

	<b>Accumulated funds R</b>
<b>Balance as at 1 January 2009</b>	315,412,616
Total comprehensive income for the year	15,376,841
<b>Balance as at 31 December 2009</b>	<u>330,789,457</u>
Total comprehensive income for the year	42,824,777
<b>Balance as at 31 December 2010</b>	<u><u>373,614,234</u></u>

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

for the year ended 31 December 2010

	Note	2010 R	2009 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash outflow from operations before working capital changes	18	1,387,465	(16,484,941)
Working capital changes			
- Decrease in trade and other receivables		8,153,084	12,296,200
- Increase in savings plan liability		14,541,728	-
- Decrease in trade and other payables		(3,140,553)	(8,552,598)
<b>Cash flows used in operations</b>		<b>20,941,724</b>	<b>(12,741,339)</b>
Investment income		26,277,661	25,937,938
Investment management fees		(1,629,890)	(285,000)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>45,589,495</b>	<b>12,911,599</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Purchase of investments	4	(211,136,601)	-
Proceeds on disposal of investments		-	129,311,025
Purchase of furniture and equipment	2	-	(41,276)
<b>NET CASH (USED IN)/FROM INVESTING ACTIVITIES</b>		<b>(211,136,601)</b>	<b>129,269,749</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		(165,547,106)	142,181,348
Cash and cash equivalents at beginning of the year		346,623,190	204,441,842
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	5	<b>181,076,084</b>	<b>346,623,190</b>

## MOTO HEALTH CARE

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

#### 1 PRINCIPAL ACCOUNTING POLICIES

These financial statements set out on pages 15 to 53 have been prepared in conformity with International Financial Reporting Standards and the Medical Schemes Act, 1998 as amended. The 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 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

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 results of operation nor on the financial position of the fund but did impact on certain disclosures in the financial statements.

Standard or Interpretation		Effective Date *
Name		
IFRS 3	Business combinations	01-Jul-09
IAS 27	Consolidated and separate financial statements	01-Jul-09
IFRIC 17	Distribution of non-cash assets to owners	01-Jul-09
IFRIC 18	Transfer of assets from customers	01-Jul-09
AC 504	IAS 19 – The Limit on a defined benefit, minimum funding requirements and their interaction in a South African pension fund environment	01-Apr-09
Amendments		
IAS 39	Amendment to IAS 39 Financial Instruments: Recognition and measurement – Eligible hedged items	01-Jul-09
IFRS 2	Amendments to IFRS 2 – Share-based payments – Group cash-settled share-based payment arrangements	01-Jan-10

\* Annual periods beginning on or after the date stated, unless otherwise indicated

## **MOTO HEALTH CARE**

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

for the year ended 31 December 2010

#### **1.3 Significant accounting judgements, estimates and assumptions**

The preparation of the fund's financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability in the future.

##### ***Judgements***

In the process of applying the fund's accounting policies, management have not made any judgements, apart from those involving estimations, which have a significant effect on the amounts recognised in the financial statements.

##### ***Estimates and assumptions***

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

##### ***Furniture and equipment***

Estimation is used in approximating the useful lives and residual values of furniture and equipment. These assessments are made on an annual basis and use historical evidence and current economic factors to estimate the values.

##### ***Impairment of trade and other receivables***

The process of identifying impairment in trade and other receivable balances is the result of a process of estimating what debtors, based on actual events and evidence at year end, will not be able to meet their obligations in the future. Portfolio impairments are only made after the specific impairment has been made and overriding economic conditions indicate that the debtors balance as a whole might be impaired after the specific provision.

##### ***Other provisions***

Certain provisions require estimation in determining the amount to be represented on the statement of financial position.

##### ***Outstanding claims provision***

Claims outstanding comprise provisions for the fund's estimate of the ultimate cost of settling all claims incurred but not yet reported at the reporting date and related internal and external claims handling expenses. Claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settling patterns, changes in the nature and number of members according to gender and age, trends in claims processing cycle, and variations in the nature and average cost incurred per claim.

## MOTO HEALTH CARE

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

#### 1.4 Furniture and equipment

Furniture and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the furniture and equipment when that cost is incurred, if the recognition criteria is met. All other repairs and maintenance costs are recognised in the income statement as incurred.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets after taking into consideration the assets' residual value.

The estimated useful lives are :

Computer equipment	4-6 years
Office equipment	4-6 years
Furniture and fittings	10 years

The useful lives and residual values and depreciation methods of the assets are reviewed at least at each financial year end any changes are accounted for as a change in estimate.

An item of furniture and equipment is derecognised upon disposal, or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is de-recognised.

#### 1.5 Financial instruments

Financial assets and liabilities are recognised on the Fund's statement of financial position when it becomes a party to the contractual provisions of the instrument.

The fund's classification of financial instruments is as follows:

<i>Description:</i>	<i>Classification:</i>
Trade and other receivables	Loans and receivables
Cash and cash equivalents	Loans and receivables
Investments held at fair value through surplus/deficit	Fair value through surplus/deficit
Trade and other payables	Amortised cost

## **MOTO HEALTH CARE**

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

for the year ended 31 December 2010

#### *Fair value*

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis or other valuation model.

#### *Measurement*

Financial instruments are initially measured at fair value plus, in the case of financial assets and liabilities not at fair value through surplus and deficit, transaction costs that are directly attributable to acquisition or issue of the financial asset or liability. Subsequent to initial recognition, these instruments are measured as set out below.

#### *Investments*

All purchases and sales of investments are recognised on the trade date, which is the date that the Fund commits to purchase or sell the asset. Financial assets held at fair value through surplus and deficit and available-for-sale investments are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of investments held at fair value through surplus and deficit are included in surplus and deficit in the period in which they arise.

#### *Trade and other receivables*

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement trade and other receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the statement of comprehensive income when the receivables are derecognised or impaired, as well as through the amortisation process.

## **MOTO HEALTH CARE**

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

for the year ended 31 December 2010

#### *Cash and cash equivalents*

Cash and cash equivalents are subsequently measured at amortised cost and comprise current bank accounts, deposits held on call with banks, and other short-term liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value and bank overdrafts.

#### *De-recognition of financial assets*

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- The fund has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

#### *Financial liabilities*

Financial liabilities are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process. Financial liabilities carried at amortised cost include trade and other payables.

#### *De-recognition of financial liabilities*

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

#### *Offset*

Where a currently enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously or to settle on a net basis, all related financial effects are offset.

## **MOTO HEALTH CARE**

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

for the year ended 31 December 2010

#### **1.6 Provisions**

##### Leave pay provision

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation at the end of the reporting period. Where the time value of money is considered material, the provision is calculated at the present value of future cash flows.

##### Outstanding claims provision

Claims outstanding comprise provisions for the fund's estimate of the ultimate cost of settling all claims incurred but not yet reported at the reporting date and related internal and external claims handling expenses. Claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the nature and number of members according to gender and age, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim. Estimated co-payments are deducted in calculating the outstanding claims provision.

The fund does not discount its provision for outstanding claims, since the effect of the time value of money is not considered material.

#### **1.7 Medical insurance contracts and liability adequacy test**

Contracts under which the Fund accepts significant insurance risk from another party (the member) by agreeing to compensate the member or other beneficiary if a specified uncertain future event (the insured event) adversely affects the member or other beneficiary are classified as insurance contracts. The contracts issued compensate the Schemes members for healthcare expenses incurred.

The liability for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of any related assets. Where a shortfall is identified, an additional provision is made and the Fund recognises the deficiency in income for the year.

#### **1.8 Contribution income**

Contributions are accounted for based on the fair value of the consideration received monthly. The earned portion of net contributions received is recognised as revenue on the accrual basis. Net contributions are earned from the date of attachment of risk, over the indemnity period on a straight-line basis.

#### **1.9 Managed care: management services**

These expenses represent amounts paid or payable to third party administrators, related parties and other third parties for managing the utilisation, costs and quality of healthcare services to the Fund.

## **MOTO HEALTH CARE**

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

for the year ended 31 December 2010

#### **1.10 Claims**

Gross claims incurred comprise the total estimated cost of all claims arising from healthcare events that have occurred in the year and for which the Fund is responsible, whether or not reported by the end of the year.

Net claims incurred comprise:

- claims submitted and accrued for services rendered during the year, net of recoveries from co-payments;
- claims for services rendered during the previous year not included in the outstanding that year, net of recoveries from members for co-payments and savings plan accounts;
- movement in the provision for outstanding claims; and
- claims settled in terms of risk transfer arrangements.

Claims incurred relating to risk transfer arrangements are calculated on the basis of actual utilisation applied to National Health Reference Pricing.

#### **1.11 Risk transfer arrangements**

Risk transfer premiums are recognised as an expense over the indemnity period on a straight-line basis. Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance. Amounts recoverable under such contracts are recognised in the same year as the related claim.

Amounts recoverable under risk transfer arrangements are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Fund may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Fund will receive under the risk transfer arrangement.

Risk transfer claims and benefits reimbursed are presented in the statement of comprehensive income and statement of financial position on a gross basis. Amounts recoverable under such contracts are recognised in the same year as the related claim. Claim recoveries under the risk transfer arrangement are determined by reports received from the service providers with all services rendered during the period.

Assets relating to risk transfer arrangements include balances due under risk transfer arrangements for outstanding claims provisions and claims reported not yet paid.

Amounts recoverable under risk transfer arrangements are estimated in a manner consistent with the outstanding claims provisions, claims reported not yet paid and settled claims associated with the risk transfer arrangement.

## **MOTO HEALTH CARE**

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

for the year ended 31 December 2010

#### **1.12 Impairment of financial assets**

The fund assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of surplus or deficit.

#### **Impairment of non-financial assets**

The fund assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Fund makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the fund makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Such reversal is recognised in the surplus or deficit.

## **MOTO HEALTH CARE**

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

for the year ended 31 December 2010

#### **1.13 Investment income**

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Fund. Dividends are recognised when they become payable to the Fund.

#### **1.14 Allocation of income and expenses**

Contribution income, claims incurred and net income/(expense) on risk transfer arrangements are directly allocated to benefit options. The remaining items are based on the number of members on each option.

#### **1.15 Road Accident Fund Recoveries**

Recoveries from the Road Accident Fund are recognised on a receipt basis and are netted off against claims expenditure. A debtor is not recognised as it would be fully impaired (refer note 24).

A reimbursement from the RAF is a possible asset that arises from a claim submitted to the RAF and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the fund. This contingent asset is assessed continually to ensure that developments are appropriately reflected in the annual financial statements. If it has become certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the annual financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, the scheme discloses the contingent asset. Amounts received from members in respect of reimbursements from the RAF are recognised as a reduction of net claims incurred.

#### **1.16 Taxation**

In terms of section 10 (1) (d) of the Income Tax Act of 1962, as amended, receipts and accruals of a benefit fund are exempt from normal tax. A medical scheme is included in the definition of a benefit fund and consequently the scheme is exempt from income tax.

#### **1.17 Relevant healthcare expenditure**

Relevant healthcare expenditure consists of net claims incurred and net income or expense from risk transfer arrangements.

#### **1.18 Operating lease payments - as lessee**

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

## MOTO HEALTH CARE

### 1.19 International Financial Reporting Standards issued, not yet effective

The fund has not applied various IFRS and IFRIC interpretations that have been issued, but which are not yet effective. The scheme does not plan to early adopt any of these standards issued but not yet effective. These are as follows:

Standard	Subject	Effective date*
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates	01-Jul-11
IFRS 7	Transfer of Financial Assets	01-Jul-11
IFRS 9	Financial instruments	01-Jan-13
IAS 12	Recovery of Underlying Assets	01-Jan-11
IAS 24	Related party disclosures	01-Jan-11
IFRIC 19	Extinguishing financial liabilities with equity instruments	01-Jul-10
	Improvements to IFRS (April 2009)	Mostly 1 January 2010*
	Improvements to IFRS (May 2010)	Mostly 1 January 2011*

The following accounting standards have been amended during the period:

Standard	Subject	Effective date*
IFRS 1	Limited exemption from comparative IFRS 7 disclosures for first-time adopters	01-Jul-10
IAS 32	Classification of rights issues – Amendment to IAS 32	01-Feb-10
IFRIC 14	Prepayments of a minimum funding requirement – Amendments to IFRIC 14	01-Jan-11

\* Annual periods beginning on or after the date stated, unless otherwise indicated

**MOTO HEALTH CARE**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2010

**2 FURNITURE AND EQUIPMENT**

	<b>Office Furniture &amp; Equipment R</b>	<b>Computer Equipment/ Motor Vehicles R</b>	<b>Total  R</b>
<b>Year ended 31 December 2010</b>			
<b>Cost</b>			
At the beginning of the year	353,558	166,648	520,206
Additions	-	-	-
At the end of the year	<u>353,558</u>	<u>166,648</u>	<u>520,206</u>
<b>Accumulated depreciation</b>			
At the beginning of the year	121,705	85,479	207,184
Depreciation charges	23,185	13,529	36,714
At the end of the year	<u>144,890</u>	<u>99,008</u>	<u>243,898</u>
<b>Carrying amount at the end of the year</b>	<u>208,668</u>	<u>67,640</u>	<u>276,308</u>
<b>Year ended 31 December 2009</b>			
<b>Cost</b>			
At the beginning of the year	387,006	145,197	532,203
Additions	9,118	32,158	41,276
Disposals	(42,566)	(10,707)	(53,273)
At the end of the year	<u>353,558</u>	<u>166,648</u>	<u>520,206</u>
<b>Accumulated depreciation</b>			
At the beginning of the year	139,269	84,240	223,509
Depreciation charges	25,002	11,946	36,948
Derecognition	(42,566)	(10,707)	(53,273)
At the end of the year	<u>121,705</u>	<u>85,479</u>	<u>207,184</u>
<b>Carrying amount at the end of the year</b>	<u>231,853</u>	<u>81,169</u>	<u>313,022</u>

The Scheme currently has only furniture and computer equipment. The office equipment and motor vehicles had a nil book value as at 2008 and have been derecognised in the 2009 financial year.

**MOTO HEALTH CARE**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2010

	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
<b>3 TRADE AND OTHER RECEIVABLES</b>		
<i>Insurance receivables</i>		
Contributions outstanding	57,410,225	71,672,755
Recoveries due from members and suppliers	4,395,828	1,906,440
Savings plan account advances (refer note 6)	4,470,225	-
	<hr/>	<hr/>
	66,276,278	73,579,195
Less: Provision for impairment losses	(33,515,627)	(33,173,109)
	<hr/>	<hr/>
	32,760,651	40,406,086
<i>Non insurance receivables</i>		
Accrued interest	-	588,429
Other debtors	264,451	183,671
	<hr/>	<hr/>
	33,025,102	41,178,186
	<hr/> <hr/>	<hr/> <hr/>

The movement in the allowance for impairment during the year was as follows:

2010	Contribution debt	Savings debt	Member and supplier debt	Total
Balance as at 1 January	31,473,727	-	1,699,382	33,173,109
Amount recognised in surplus/deficit for the year	(2,606,932)	449,745	2,499,705	342,518
Additional provisions made in the year (Note 15)	-	449,745	2,499,705	2,949,450
Unused amounts reversed during the year	(2,606,932)	-	-	(2,606,932)
Balance as at 31 December	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	28,866,795	449,745	4,199,087	33,515,627

2009	Contribution debt	Supplier and other debt	Total
Balance as at 1 January	28,559,474	31,658,666	60,218,140
Amount recognised in surplus/deficit for the year	2,914,253	(29,959,284)	(27,045,031)
Additional provisions made in the year (Note 15)	2,914,253	1,699,382	4,613,635
Amounts utilised during the year	-	(31,658,666)	(31,658,666)
Balance as at 31 December	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	31,473,727	1,699,382	33,173,109

At year-end the carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets. Debtors are non interest bearing, unsecured and contributions outstanding payable within 3 days after year end.

## MOTO HEALTH CARE

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

	2010 R	2009 R
<b>4 INVESTMENTS HELD AT FAIR VALUE THROUGH SURPLUS AND DEFICIT</b>		
Fair value at the beginning of the year	-	138,434,641
Additions	211,136,601	-
Disposals	-	(129,311,025)
Fair value adjustment	4,828,576	(9,123,616)
	<u>215,965,177</u>	<u>-</u>

The investments included above represent investments in:

Cash and Deposits	130,389,940	-
Bills, Bonds and Securities	45,010,650	-
Property	8,454,697	-
Shares	32,109,889	-
	<u>215,965,176</u>	<u>-</u>

Included in the shares are derivative cash exposures and options hedge exposures linked to safex equity.

A register of investments is available for inspection at the registered office of the Fund. The investment managers actively traded the underlying portfolios with reference to the market values of the underlying investments.

The overall weighted average effective return on the above investments was 8.1% (2009: Nil) for the year ended 31 December 2010.

### 5 CASH AND CASH EQUIVALENTS

Call accounts	169,873,728	41,558,776
Current accounts	11,202,356	27,063,551
Fixed term deposits	-	278,000,863
	<u>181,076,084</u>	<u>346,623,190</u>

The weighted average effective interest rate on call accounts was 5.5% (2009: 7.07%).

The weighted average effective interest rate on fixed term deposits was 8.59% for the year ended 31 December 2009.

Current accounts earn interest at floating rates based on daily rates.

At year-end the carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets.

## MOTO HEALTH CARE

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

	2010 R	2009 R
<b>6 SAVINGS PLAN LIABILITY</b>		
The Scheme introduced savings on the Classic Option for the first time in 2010, hence no prior year savings plan liability.		
Balance on savings plan liability at beginning of the year	-	-
Less: Advances on savings plan accounts	-	-
Net balance on savings plan liability at the beginning of the year	-	-
Add:		
Savings plan account contributions received or receivable		
- for the current year (refer note 9)	92,322,182	-
Less:		
Transfers to other Funds	(68,047)	-
Repayments on death or resignation	(418,985)	-
Claims paid on behalf of members (refer note 10)	(81,763,647)	-
Add:		
Advances on savings plan accounts included in trade and other receivables (refer note 3)	4,470,225	-
Net balance on savings plan liability at end of the year	14,541,728	-

It is estimated that claims to be paid out of members' savings accounts in respect of claims incurred in 2010 but not recorded will amount to R10 111 044 (refer note 8). As at year end, the carrying amount of the member's savings accounts were deemed to be equal to their fair values, which is the amount payable on demand. These amounts were not discounted due to the demand feature.

The savings plan liability represents funds held on behalf of members by the Fund. The savings plan facility assists members in managing the cash flows for costs to be borne by them during the year, meeting provider service expenses not covered in the Fund's approved benefits and meeting or self funding member co-payments for provider services rendered.

Unexpended savings at the year-end are carried forward to meet future expenses for which the members are responsible. In terms of the Medical Funds Act 131 of 1998, as amended, balances standing to the credit of members are only refundable in terms of Regulation 10 of the Regulations to the Medical Funds Act 131 of 1998, as amended. In accordance with the rules of the Fund, the bad debt risk of savings plans advances is underwritten by the Fund.

### 7 TRADE AND OTHER PAYABLES

<i>Insurance payables</i>	2,282,490	4,828,194
Unallocated contributions	127,490	2,946,349
Credit balances in trade and other receivables	904,496	871,656
Amounts payable to suppliers	1,250,504	1,010,189
<i>Non-insurance payables</i>	3,818,355	4,413,204
Leave Pay	151,960	122,135
Accruals	1,902,767	2,625,495
Sundry trade and other payables	1,763,628	1,665,574
	6,100,845	9,241,398

The carrying amounts of trade and other payables approximate their fair values due to the short term maturities of these liabilities.

The amounts owed are interest free, unsecured and the terms of repayment are 30 days from invoice date.

**MOTO HEALTH CARE****NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2010

**8 OUTSTANDING CLAIMS PROVISION**

	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
Provision for outstanding claims	36,085,864	48,083,543
Provision arising from liability adequacy test	-	-
	<u>36,085,864</u>	<u>48,083,543</u>

**Analysis of movements in outstanding claims**

Balance at beginning of year	48,083,543	63,452,952
Payments in respect of prior year	<u>(45,822,080)</u>	<u>(61,954,280)</u>
Over provision in prior year (refer note 10)	2,261,463	1,498,672
Increase in provision for the current year	33,824,401	46,584,871
Balance at end of year	<u>36,085,864</u>	<u>48,083,543</u>

**Analysed as follows**

Estimated gross claims	46,196,908	48,083,543
Less: Estimated recoveries from savings plan accounts	<u>(10,111,044)</u>	-
Balance at end of year	<u>36,085,864</u>	<u>48,083,543</u>

## **MOTO HEALTH CARE**

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

for the year ended 31 December 2010

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

##### **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 reporting 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.

##### **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 incurred 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 and 2010 benefit year.

## MOTO HEALTH CARE

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

#### 8 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 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 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 2010	Change in liability 2009
	%	R	R
Hospital (major medical benefit) claims ratio	5%	267,499	330,860
Chronic claims ratio	5%	20,413	22,979
Day-to-day claims ratio	5%	17,221	58,415

This analysis has been prepared for a change in a specified variable with other assumptions remaining constant. The change in liability also represents the absolute change in surplus for the period. These, reasonably possible changes in key variables do not result in any changes directly in reserves.

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:

	2010 R	2009 R
Outstanding claims provision	36,085,864	48,083,543
Portion of outstanding claims provision paid to date	29,983,203	39,840,475
Residual estimate of claims incurred but not paid	<u>6,102,661</u>	<u>8,243,068</u>

#### 9 NET CONTRIBUTION INCOME

Gross contributions	752,922,434	859,269,001
Less: Savings contributions (refer note 6)	(92,322,182)	-
Net contribution income	<u>660,600,252</u>	<u>859,269,001</u>

## MOTO HEALTH CARE

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

	2010 R	2009 R
<b>10 NET CLAIMS INCURRED</b>		
Claims incurred, excluding claims incurred in respect of risk transfer arrangements - current year claims	567,661,243	659,110,826
Movement in outstanding claims provision	33,824,401	46,584,871
- Over provision in prior year (refer note 8)	(2,261,463)	(1,498,672)
- Adjustment for current year	36,085,864	48,083,543
	<u>601,485,644</u>	<u>705,695,697</u>
Less:		
- Claims paid from savings accounts (refer note 6)	(81,763,647)	-
Claims incurred in respect of risk transfer arrangements: Carecross (Pty) Ltd - current year claims	62,496,352	70,489,320
Total net claims incurred	<u>582,218,349</u>	<u>776,185,017</u>
<b>11 NET INCOME ON RISK TRANSFER ARRANGEMENT</b>		
<b>Carecross (Pty) Ltd</b>		
Recoveries under risk transfer arrangement	62,496,352	70,489,320
Premiums paid in respect of risk transfer arrangement	(50,594,101)	(56,652,485)
Net income on risk transfer arrangement	<u>11,902,251</u>	<u>13,836,835</u>
Carecross (Pty) Ltd provided basic primary care to the members on the Essential and Custom options during the year.		
<b>12 MANAGED CARE: MANAGEMENT SERVICES</b>		
Hospital Benefit Management	6,860,150	9,037,162
Pharmacy Benefit Management	4,573,434	6,024,775
Disease Management	3,048,956	4,016,516
Operational Risk Management	762,238	1,004,129
	<u>15,244,778</u>	<u>20,082,582</u>

Momentum Medical Scheme Administrators (Pty) Ltd provides managed care services to the Fund. The amount represents in its entirety a percentage-based apportionment of the administration fees paid for the year to Momentum Medical Fund Administrators (Pty) Ltd for performing these services.

**MOTO HEALTH CARE**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 31 December 2010

	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
<b>13 ADMINISTRATION EXPENSES</b>		
Administrator's fees	45,734,335	68,861,248
Momentum Medical Scheme Administrators	45,734,335	59,398,742
Full Circle Health	-	8,831,413
Knowledge Object Pharmaceutical Benefit Managers	-	112,380
Motor Industry Bargaining Council	-	518,713
Auditor's remuneration -current year	432,452	1,523,853
- audit fees - current year	595,727	1,221,898
- audit fees - (over)/ under-provision	(163,275)	290,555
- audit fees - other costs	-	11,400
Audit committee fees	26,400	71,500
Bank charges	21,546	35,549
Building and maintenance	31,013	94,889
Computer expenses	127,828	77,712
Consultants fees	400,101	1,231,761
Debt collection fees	828,824	555,000
Depreciation	36,714	36,948
Fidelity and insurance	187,706	218,420
Legal Costs	168,362	517,217
Principal Officer salary and expenses	939,691	581,466
<i>Salary</i>	595,670	322,695
<i>Pension</i>	93,456	49,820
<i>Other Benefits</i>	136,733	82,135
<i>Expenses</i>	113,832	126,816
Printing, postage and stationery	248,565	217,771
Marketing Costs	11,029,718	960,128
Registrar's levies	718,432	844,096
Rent expense	188,257	379,221
Trustees and audit committee members expenses	484,892	678,298
Telephone	93,318	183,365
Travel and accomodation	132,594	232,285
Staff costs	1,172,596	1,234,543
<i>Salary</i>	787,220	949,417
<i>Medical</i>	88,403	58,816
<i>Pension</i>	143,443	120,527
<i>Other Benefits</i>	153,530	105,783
Sundry expenses	313,373	159,840
	<b>63,316,717</b>	<b>78,695,110</b>

**MOTO HEALTH CARE****NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2010

	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
<b>14 BROKER SERVICE FEES</b>		
Broker service fees	1,002,941	849,004
<b>15 NET IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES</b>		
Outstanding member contributions	(2,606,932)	2,914,253
Members' and service providers' portions	2,499,705	1,699,382
Advances from savings plan accounts	449,745	-
	<u>342,518</u>	<u>4,613,635</u>
<b>16 INVESTMENT INCOME</b>		
Interest on bank accounts, call accounts and fixed deposits	22,739,630	25,937,938
Dividends received	3,538,031	-
Total investment income	<u>26,277,661</u>	<u>25,937,938</u>
<b>17 FAIR VALUE ADJUSTMENT</b>		
Realised gains on disposal	210,173	-
Unrealised gain/(losses) on remeasurement	4,618,403	(9,123,616)
Net fair value adjustment for the year	<u>4,828,576</u>	<u>(9,123,616)</u>
<b>18 CASH OUTFLOW FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES</b>		
<b>Reconciliation of net surplus/deficit for the year to cash flows from operations before working capital changes</b>		
Net surplus for the year	42,824,777	15,376,841
Adjustments for:		
- Investment income	(26,277,661)	(25,937,938)
- Investment management fees	1,629,890	285,000
- Decrease in outstanding claims provision	(11,997,679)	(15,369,408)
- Fair value adjustment	(4,828,576)	9,123,616
- Depreciation	36,714	36,948
Cash flows from operations before working capital changes	<u>1,387,465</u>	<u>(16,484,941)</u>

## MOTO HEALTH CARE

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

#### 19 RELATED PARTY TRANSACTIONS

	2010 R	2009 R
Momentum Medical Scheme 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 (refer notes 12 and 13):		
Administration fees	45,734,335	59,398,742
Managed care fees	15,244,779	20,082,582
	<u>60,979,114</u>	<u>79,481,324</u>
Amount owing at year end	51,650	23,841

The Motor Industry Bargaining Council 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
Debt collection fees	770,833	555,000
Rent/Electricity & Water	15,136	361,147
Payroll administration	-	1,109,616
Sundry expenses	29,369	-
Trade and other payables	(1,316,870)	(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 R218 538 (2009: R209 221). Net claims paid was R220 776 (2009: R175 296). The Principal officer's salary expense was R825 859 (2009: R454 650). Refer Note 13 for a breakdown of the Principal Officer's salary and expenses. For a breakdown of the Board of Trustees's fees and expenses, please refer Note 26.

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

## MOTO HEALTH CARE

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

#### 20 MINIMUM LEASE PAYMENTS

	2010 R	2009 R
Rental expense		
1 year	193,979	139,971
2-5 years	775,915	559,884
	<u>969,894</u>	<u>699,855</u>

Minimum lease payments represent contractual lease payments for leasing of corporate offices in Randburg.

#### 21 INSURANCE RISK MANAGEMENT

##### **Risk management objectives and policies for mitigating medical insurance risk**

The primary medical 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 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 medical insurance and investment activities.

The Fund manages its medical 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 as well as the monitoring of emerging issues.

The Fund uses several methods to assess and monitor medical 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 medical insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected.

The Fund's strategy seeks to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome. The strategy is set out in the annual business plan, which specifies the benefits to be provided by each option, the preferred target market and demographic split thereof.

All the contracts are annual in nature and the Fund has the right to change the terms and conditions of the contract at renewal. Management information including contribution income and claims ratios by option, target market and demographic split, is reviewed monthly. There is also a program that regularly reviews contractual premium and benefit data to ensure adherence to the Fund's objectives.

Medical insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated.

**MOTO HEALTH CARE**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2010

**21 INSURANCE RISK MANAGEMENT (continued)**

The Fund cedes medical insurance risk to limit exposure to underwriting losses under various agreements that cover individual risks and defined blocks of risk, on a co-insurance, yearly renewable term. These risk transfer arrangements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Fund's evaluation of the specific risk, subject in certain circumstances, to maximum limits based on characteristics of coverage. According to the terms of the capitation agreements, the suppliers provide certain minimum benefits to Fund members on various benefit options, as and when required by the members. The Fund does, however, remain liable to its members with respect to ceded medical insurance if any capitation provider fails to meet the obligations it assumes. When selecting a capitation provider the Fund considers its stability from public rating information and from internal investigations.

The following table summarises the concentration of medical insurance risk on a beneficiary level, with reference to the net carrying amount of the medical insurance claims incurred in respect of the 2009 and 2010 financial years, by age group and in relation to the type of risk covered or benefits provided. Where appropriate prescribed minimum benefits (PMB) and non-PMB claims have been split.

	Hospital (major medical)		Chronic		Day to day	Total
	PMB	Non PMB	PMB	Non PMB		
	R'000	R'000	R'000	R'000	R'000	R'000
<b>2010</b>						
<b>Age grouping</b>						
< 26	31,923	24,410	1,888	1,124	7,159	66,504
26 - 35	31,318	12,866	2,102	566	3,507	50,359
36 - 50	51,118	24,924	8,294	1,859	8,969	95,164
51 - 65	74,981	25,097	16,655	3,266	13,117	133,116
> 65	92,936	25,869	15,220	2,271	7,487	143,783
<b>Total amount</b>	<b>282,276</b>	<b>113,166</b>	<b>44,159</b>	<b>9,086</b>	<b>40,239</b>	<b>488,926</b>

	Hospital (major medical)		Chronic		Day to day	Total
	PMB	Non PMB	PMB	Non PMB		
	R'000	R'000	R'000	R'000	R'000	R'000
<b>2009</b>						
<b>Age grouping</b>						
<b>(in years)</b>						
< 26	49,035	31,918	2,348	1,935	37,605	122,841
26 - 35	39,445	18,626	2,472	948	22,883	84,374
36 - 50	59,570	32,075	9,377	2,460	36,800	140,282
51 - 65	78,600	30,482	17,306	3,743	33,920	164,051
> 65	86,379	28,231	14,709	2,007	19,038	150,364
<b>Total amount</b>	<b>313,029</b>	<b>141,332</b>	<b>46,212</b>	<b>11,093</b>	<b>150,246</b>	<b>661,912</b>

## **MOTO HEALTH CARE**

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

for the year ended 31 December 2010

#### **21 INSURANCE RISK MANAGEMENT (continued)**

Hospital (major medical) benefits cover all costs incurred by members whilst they are in hospital receiving preauthorised treatment for certain medical conditions. Chronic benefits cover the cost of certain prescribed medicines consumed by members for chronic conditions/diseases, such as high blood pressure, cholesterol and asthma. Day-to-day benefits cover the cost of all out of hospital medical attention, such as visits to general practitioners and dentists as well as prescribed non-chronic medicines.

##### **Claims development**

Claims development tables are not presented since the uncertainty regarding the amount and timing of claim payments is typically resolved within one year.

#### **22 FINANCIAL RISK MANAGEMENT**

The fund's activities expose it to a variety of financial risks, including the effects of changes in the credit risk, liquidity risk and market risk. The fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments that the fund holds to meet its obligations to its members.

Risk management and investment decisions are carried out by the administrators and investment managers, under the guidance and policies approved by the Board of Trustees.

The fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the fund's activities. The fund, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The fund's Audit Committee oversees how management monitors compliance with the fund's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the fund. The fund's Audit Committee is assisted in its oversight role by the Internal Audit division. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

## MOTO HEALTH CARE

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

#### 22 FINANCIAL RISK MANAGEMENT (continued)

##### Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise interest rate risk, currency risk, and equity risk.

##### Interest Rate Risk

Interest rate risk is the exposure that the Fund has to changes in interest rates. The main exposure to the Fund would be a reduction in interest income on investments if interest rates were to decrease. In order to reduce the impact of any potential interest rate changes, the Fund holds a diversified portfolio of investments in the short term.

If interest rates increased by 1.0% (2009 : 1.5%), assuming all other variables remain constant, and the recent past is predictive of the future, the impact on return on investment and the resulting impact on the surplus of the Fund is as follows:

	<b>2010</b>	<b>2009</b>
	<b>R'000</b>	<b>R'000</b>
Increase in investment income	3,224	4,942

The table below summarises the Fund's exposure to interest rate risks. Included in the table are the Fund's investments in interest bearing instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month R'000	1 - 12 months R'000	Total R'000
<b>As at 31 December 2010</b>			
Investments held at fair value through surplus and deficit	-	215,965	215,965
Cash and cash equivalents	11,202	169,874	181,076
<b>Total</b>	11,202	385,839	397,041
<b>As at 31 December 2009</b>			
Cash and cash equivalents	68,622	278,001	346,623

##### Credit Risk

Credit risk is the risk of financial loss to the fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The fund's principal financial assets are cash and cash equivalents, trade and other receivables and investments.

The fund has no significant concentration of credit risk, with exposure spread over a large number of counterparties and members

## MOTO HEALTH CARE

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

#### 22 FINANCIAL RISK MANAGEMENT (continued)

The Fund's credit risk is primarily attributable to trade and other receivables. The amounts presented in the statement of financial position are net of allowances for possible impairment losses, estimated by the Fund's management based on prior experience and the current economic environment.

	2010 R'000	2009 R'000
<b>Trade and other receivables</b>		
Fully performing	31,626	37,663
Past due but not impaired	1,399	3,515
Past due and impaired	33,516	33,173
	<u>66,541</u>	<u>74,351</u>
Provision for impairment of trade and other receivables	(33,516)	(33,173)
Trade and other receivables (Note 3)	<u>33,025</u>	<u>41,178</u>

For detailed explanation of impairment procedures for the Fund, refer Note 1.12.

The amount in the past due but not impaired category has not been aged since it all related to balances in 30 days.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

#### **Equity Risk**

Equity risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market place.

Equities are reflected at market values, which are susceptible to fluctuations. The Scheme manages its equity risk by employing the following procedures:

- mandating a specialist fund manager to invest in equities, where there is an active market and where access is gained to a broad spectrum of financial information relating to the companies invested in;
- diversifying across many securities to reduce risk. Diversification is guided by the Medical Schemes Act; and
- considering the risk-reward profile of holding equities and bearing the risk in order to obtain higher expected returns on assets.

Bonds	1,716	-
Equity	738	-

## MOTO HEALTH CARE

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

#### 22 FINANCIAL RISK MANAGEMENT (continued)

##### Liquid Funds

Asset Manager	2010 R'000	2009 R'000
ABSA Bank	54,949	74,621
Standard Bank *	31,019	120,462
Nedbank	41,560	41,559
Investec Bank	5,017	109,957
First National Bank *	38,460	25
Standard Chartered Bank	10,072	-

\* - Includes the current account

##### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents by monitoring the availability of funding through liquid-holding cash positions with various financial institutions. This ensures that the Fund has the ability to fund its day-to-day operations.

The table below analyses the assets and liabilities of the Fund into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date:

On demand R'000	Within 3 months R'000	3 - 12 months R'000	Over 1 year R'000	Total R
--------------------	-----------------------------	---------------------------	-------------------------	------------

##### As at 31 December 2010

Assets	42,713	171,311	77	-	214,101
Trade and other receivables	31,511	1,437	77	-	33,025
Cash and cash equivalents	11,202	169,874	-	-	181,076

Liabilities	2,400	1,677	52,524	127	56,728
Savings plan liability	1,625	449	12,468	-	14,542
Trade and other payables	775	1,228	3,970	127	6,100
Outstanding claims provision	-	-	36,086	-	36,086

Net positive liquidity 40,313 169,634 (52,447) (127) 157,373

##### As at 31 December 2009

Assets	106,183	281,545	73	-	387,801
Trade and other receivables	37,561	3,544	73	-	41,178
Cash and cash equivalents	68,622	278,001	-	-	346,623

Liabilities	2,628	-	54,544	153	57,325
Trade and other payables	2,628	-	6,460	153	9,241
Outstanding claims provision	-	-	48,084	-	48,084

Net positive liquidity 103,555 281,545 (54,471) (153) 330,476

## MOTO HEALTH CARE

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

#### 22 FINANCIAL RISK MANAGEMENT (continued)

##### Fair value estimation

This is the difference between the carrying amount and fair value of financial instruments

2010		2009	
Carrying	Fair Value	Carrying	Fair Value
R'000	R'000	R'000	R'000

Investments held at fair value through the income statement	215,965	215,965	-	-
Cash and cash equivalents	181,076	181,076	346,623	346,623
Trade and other receivables	33,025	33,025	41,178	41,178
Trade and other payables	6,101	6,101	9,241	9,241

At year-end the carrying amounts approximate their fair values due to the short-term maturities of these assets and liabilities.

##### Fair value hierarchy

The fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 Other techniques for which all inputs which have a significant effect on the recorded fair values are observable, either directly or indirectly.

Level 3 Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The fair value of publicly traded financial instruments held as investments held at fair value through profit or loss, is based on quoted market prices at the statement of financial position date. Instruments classified as held at fair value through profit or loss in the statement of financial position are held at fair value. All financial assets held at fair value are level 1 in the fair value hierarchy.

##### Financial Assets

###### Level 1

Investments held at fair value through surplus and deficit	
Cash and Deposits	130,390
Bills, Bonds and Securities	45,011
Property	8,455
Shares	32,110
	<u>215,966</u>

##### Capital Adequacy Risk

This represents the risk that there are insufficient reserves to provide for adverse variations on actual and future experience. The Fund defines its capital as accumulated funds as detailed in the statement of changes in funds and reserves. The Fund manages its capital to ensure that it will be able to continue as a going concern as well as meet the solvency ratio of 25%, as regulated by the Medical Funds Act of 1998. The Fund had 373 million (2009: R331 million) of accumulated funds at 31 December 2010, which translated to an accumulated funds ratio of 49.0% (2009: 38.5%).

## **MOTO HEALTH CARE**

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

for the year ended 31 December 2010

#### **23 FIDELITY COVER**

The Scheme participated in fidelity insurance and professional indemnity cover provided by Marsh (Pty) Ltd via its administrator Momentum Medical Scheme Administrators (Pty) Ltd, on behalf of all the schemes it administered, amounting to R200 million.

#### **24 CONTINGENT ASSETS**

The Scheme has approximately R11.8 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 statement of financial position 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.

#### **25 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**

##### **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 Scheme.

##### **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 challenges and CMS was also involved during the budget process. The Fund is committed to rectify the situation through marketing and benefit design.

## **MOTO HEALTH CARE**

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

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#### **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.

##### **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.

## MOTO HEALTH CARE

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

#### **4. Limitation of assets**

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

In terms of the Medical Schemes Act and specifically Regulation 30, derivatives are classified as "other assets" and are limited to 2.5% of the Scheme's total investments. During the year under review, there were instances in the last 4 months of the year where more than 2.5% of investments were invested in derivatives.

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

The contravention of the Act could lead to the investment risk of the fund being too high due to an inadequate spread of investments.

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

The CMS were made aware of this situation and the fact that it was a temporary situation. The fund intends to unwind the portfolio in which they have derivative exposure and has subsequently terminated the relationship with the asset manager.

## 26 TRUSTEE EXPENSES

### 2010

	<b>Travel</b>	<b>Fees for meetings</b>	<b>Total</b>
	<b>R</b>	<b>R</b>	<b>R</b>
B Canning	70,117	26,150	96,267
A De Witt		24,566	24,566
E Kubeka		26,956	26,956
M Minnaar		36,250	36,250
J Mthimunye		22,250	22,250
A van der Rhee	30,503	23,590	54,093
J Olivier		32,559	32,559
M Roberts	55,992	26,927	82,919
X Samana	31,972	32,150	64,122
S Tsiane		44,910	44,910
	<u>188,584</u>	<u>296,308</u>	<u>484,892</u>

### 2009

B Canning	126,736	21,388	148,124
A De Witt	-	18,226	18,226
E Kubeka	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>

**MOTO HEALTH CARE**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 31 December 2010

**27 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