



annual report 2010

INTRODUCTION

Our history

Bonitas Medical Fund (Bonitas) was established in 1982 and is today the second biggest open medical scheme by membership, with some 618,000 beneficiaries. Originally, Bonitas catered only for Black civil servants, but in the mid 1990's became an open medical scheme allowing access to all South Africans. Bonitas current membership demographic consist of 64% Black, 20% White, 8% Coloured, 5% Asian and 3% Other. Bonitas remains one of the best-performing schemes in the industry, its solvency ratio (reserves as a percentage of contributions) is healthy at well above the 25% required by the Medical Schemes Act.

Bonitas charter

Bonitas Medical Fund has a proud 28-year heritage of providing healthcare benefits to all South Africans. As a non-profit organisation that exists solely for the benefit of our members, Bonitas has been entrusted with the responsibility for providing for our members' healthcare needs. This is a responsibility Bonitas takes seriously and we therefore undertake to:

- Always act in the best interests of members and beneficiaries

- Provide healthcare benefits of exceptional quality and substance
- Ensure that value-for-money is always a top priority
- Design relevant benefit options that are easy to understand
- Deliver outstanding service
- Adhere to the highest standards of financial management and corporate governance.

Our vision

To empower members as shareholders of the Scheme and partner with healthcare professionals to access affordable and quality healthcare.

Our mission

To be the sustainable value-based medical scheme.

Our values

Compassion (caring), mutual respect between all stakeholders and empowerment of both beneficiaries and healthcare professionals.

From the Desk of the Curator

Given under hand of the Curator - Bonitas Medical Fund

As you are well aware, on 27 May 2011, in keeping with a settlement reached between various parties, Bonitas Medical Fund ("Bonitas") was placed under curatorship in terms of an order of Court given under the hand of His Lordship, Justice Willis in the South Gauteng High Court. Mr M J Maluleke was appointed as Curator.

As the reporting to members in respect of the preceding year only takes place in the following year, the Board Report, and the Principal Officer's report, is tabled under the hand of the Curator by virtue of the fact that the aforementioned court order vested both the powers of the Board and the powers of the Principal Officer in the Curator.

Application for curatorship

On 26 January 2010 the then acting Registrar of Medical Schemes ("acting Registrar") brought an urgent application in the South Gauteng High Court to place Bonitas under curatorship on the grounds that investigations in terms of section 51 of the Medical Schemes Act ("the Act"), conducted into the affairs of Bonitas confirmed the existence of material irregularities in the management and control of Bonitas' affairs and it was desirable that the

Board of Trustees ("BoT") be divested of the powers to manage and control Bonitas' affairs.

The court was expected to hear the matter on 9 March 2010. Bonitas opposed the application on the grounds, amongst others, that the acting Registrar had failed to make out a case that Bonitas should be placed under curatorship because of the alleged failure of the Trustees to comply with their duty and it was not in the interests of beneficiaries and neither was it desirable to place Bonitas under curatorship.

In an attempt to resolve the dispute out of court in an amicable manner, the BoT submitted a settlement proposal to the acting Registrar. The acting Registrar rejected the proposal and in turn submitted a counter-proposal. The acting Registrar's counter-proposal was considered and rejected by the BoT.

On 05 March 2010, Medscheme Holdings Pty Limited (the administrator of Bonitas) brought an application to intervene in the curatorship proceedings between Bonitas and the acting Registrar seeking an order allowing it to intervene in order to ensure that its rights are protected

and that the report compiled by an Investigator appointed by court in terms of section 51 of the Act be struck out. As an alternative to the order sought, Medscheme sought an order halting the curatorship application until such time as Medscheme approached a court to review the investigator's report and that court has ruled on the matter.

On 31 May 2010, the Deputy Judge President ("DJP") advised the Registrar and Medscheme that the intervention application must be enrolled and disposed of before the main application (curatorship) is heard. The intervention application was never enrolled since the DJP's directive and accordingly the curatorship application was never heard and remained in abeyance.

Section 46 proceedings and divestment of BoT powers

On 12 August 2010 the Council for Medical Schemes ("the Council") issued notices to members of the BoT in terms of section 46 of the Act in terms of which the Trustees were required to furnish the Council with their respective comments within 30 (thirty) days on allegations that they are not fit and proper persons to be Trustees. The grounds on which the Council believed that the Trustees were no longer fit and proper to remain in the office of Trustee were, amongst others, that they allowed payments to be made from Bonitas' bank account in

contravention of section 26(4) of the Act in relation to Pegma Thirty Six Investments (Pty) Ltd and the Clanthsthal property development and that they continued to embark on property development despite being advised not to do so by the Council and without taking any expert advice when property development is a matter in respect of which the Trustees lacked the necessary expertise. On receipt of the Notices, the BoT approached the office of the Registrar requesting that the time period for responding to these notices should be held in abeyance to give the parties an opportunity to explore the possibility of resolving the pending curatorship application and the section 46 proceedings. The office of the Registrar advised the BoT that the time period for the Trustees to respond to the section 46 notices would not be suspended. The Trustees could however approach the Council and request that the period be extended.

The BoT then brought an urgent application in court seeking an order directing that the time periods for reply to the section 46 notices be stayed pending the finalisation by way of a final Order of Court of an application by the BoT to review the Council's decision to issue the section 46 notices.

The office of the Registrar opposed the application and challenged Bonitas' authority to bring the urgent

application due to the fact that the resolution relied upon to bring the application is invalid because when the resolution was passed, the BoT did not form a quorum. One of the Trustees, Mr T Shangase, had already resigned on 31 August 2010, and consequently the Board was inquorate under the rules of the Scheme. The Registrar then brought a counter-application for an order seeking, amongst other things, that a special general meeting be held by no later than 30 October 2010 to elect a new Board of Trustees and vesting the powers and the functions of the BoT in the Acting Principal Officer of Bonitas, Mr G van Emmenis (the then Acting Principal Officer of Bonitas), which powers and functions were to be exercised in consultation with the Registrar.

Mr van Emmenis, acting on legal advice, then brought an application to intervene in these proceedings for an order:

- directing the Registrar in terms of section 31(2) of the Act to register the amendment to Rule 18.8 of the Rules of Bonitas to the extent that a quorum is constituted by 50% plus one elected Trustees physically present at a meeting of the Board (Rule 18.8 provided that a quorum would be 6 elected Trustees). This would have negated the necessity for vesting the powers in Mr van Emmenis, as the BoT would once again be quorate, and able to

function.

- alternatively, to grant an order in terms of paragraphs 1 to 5 of the notice of motion in the counter-application subject to the date “30 October 2010 in paragraphs 1 and 5 being amended to 30 November 2010” and further that the Registrar appoint a person to act as a compliance officer for the purpose of overseeing and assisting with the election.

The matter was heard on 17 September 2010 and the court dismissed Mr van Emmenis application with costs and ordered that:

- Mr van Emmenis was vested with the powers and function of the BoT, to be exercised in consultation with the office of the Registrar.
- Mr van Emmenis to convene a special general meeting of members by no later than 6 December 2010 for the purposes of electing a Board;
- Mr Joseph Maluleke be appointed as a Compliance Officer of Bonitas. Mr Maluleke and Mr van Emmenis were required to report to the Council on a weekly basis.

General meeting

Mr van Emmenis, after consultation with Mr Maluleke on

22 September 2010 regarding the holding of the special general meeting, came to the conclusion that, given the processes required to convene a meeting as outlined in the project plan submitted to the office of the Registrar, the period within which Mr van Emmenis was required to hold the meeting was too short and therefore would be extremely difficult and undesirable to hold the said meeting by 6 December 2010. Bonitas then approached the office of the Registrar and it was agreed between the parties that an application will be made to court to postpone the election to 05 February 2011. The order was granted on 19 October 2010.

In the period since the granting of the second court order extending the date of elections, various steps were taken to secure compliance with the two court orders and the holding of the special general meeting and election before 5 February 2011. Between 21 and 26 October 2010 Mr van Emmenis and the office of the Registrar met to discuss the proposed amendments to the registered rules of Bonitas. It was important for both Bonitas and the Registrar that the rules of the scheme be amended to ensure that the rules make provision for, amongst others, the appointment of professionals of different expertise as Trustees of the Scheme, the manner of calling for nominations and other issues relating to the convening of the special general meeting.

On 27 October 2010 Bonitas submitted to the office of the Registrar formal documentation requesting that the rule amendment be registered. The office of the Registrar duly accepted and registered the rule amendment on 28 of October 2010. After receiving confirmation that the rule amendments had been registered, a notice convening the special general meeting was despatched to members on 03 November 2010, in compliance with the second court order.

As a result of the time constraints imposed by the court order and the impending festive season and holidays, it became apparent that an open tender process may not be ideal because it will take much longer than the Scheme could afford. In line with the Procurement Policy of the Scheme, Mr Maluleke and Mr van Emmenis decided that a closed tender process should be embarked upon and only selected service providers listed on the Scheme's supplier database would be invited to submit their respective proposals. This was accepted by the office of the Registrar.

On 07 January 2011 the Registrar's office engaged Mr Maluleke and Mr van Emmenis on the election process and indicated that the second date of the special general meeting had to be reviewed. On 19 January 2011 the Registrar's office directed the Scheme to approach the

court for a postponement of the election date. On 01 February 2011, the court granted Bonitas an order postponing the elections to no later than 28 May 2011. Immediately after the granting of the third court order Mr Maluleke and Mr van Emmenis invited four auditing firms to submit proposals to Bonitas to be appointed as independent electoral body to oversee the elections. A notice informing members that the meeting and elections would be held on 21 May 2011 was then despatched. Between 2 February 2011 and 17 March 2011, Mr Maluleke and Mr van Emmenis engaged with the office of the Registrar in order to finalise the appointment of the independent electoral body to oversee the elections, and other matters pertaining thereto. An electoral body comprising of PwC, with oversight functions to be performed by KPMG Inc ("KPMG"), was duly appointed.

A Steering Committee, consisting of Mr Maluleke and Mr van Emmenis, representatives of PwC and KPMG and representatives from the office of the Registrar was established to ensure that the elections would proceed on schedule.

On 17 March 2011, a second notice was despatched to the members. The purpose of this notice was to inform members inter alia of the number of vacancies that are to be filled, and to further call for nomination of candidates

from the members. Certain members had in the interim filed an appeal against the rule amendments registered by the Registrar in October 2010. The matter came before the Appeal Committee of the Council for Medical Schemes.

Furthermore, upon registration of the rule amendments, the Board became quorate once again. The Trustees who were divested of their powers therefore brought an application to be re-instated.

The Appeal Committee of the Council met on 16 May 2011 and declared the rule amendments to be invalid. On 19 May 2011, certain members threatened to bring an urgent application to interdict the holding of the meeting on the grounds that the notices convening the electoral conference were invalid. This interdict did not materialize.

Variation application and settlement agreement

Due to the uncertainty relating to inter alia the number of Trustees to be elected, given that the remaining Trustees' powers had merely been suspended by the order of 17 September 2010, and therefore continued to hold office and further uncertainties anticipated due to the appeal raised against the rule amendments, the parties were in negotiations to bring about stability to the Scheme. After several postponements and intensive negotiations, Mr van Emmenis, the Registrar and the Trustees reached an

agreement on 20 May 2011 in terms of which, amongst others:

- Mr Maluleke was appointed as the Curator and directed to convene a general meeting to elect a new board of Trustees.
- Mr van Emmenis was divested of the powers and functions of the Scheme's Board of Trustees with effect from 27 May 2011.
- The Trustees would resign as Trustees with effect from 27 May 2011.

The settlement agreement was then made an order of court on 27 May 2011 by Judge Willis.

Curators' Remarks

The curator would like to mention the following which might be noteworthy to members:

- The current state of governance within Bonitas is well on its way to be normalised.
- There is already a Board of Trustees in place elected on 21 May 2011, which can take over once the curatorship is lifted. This current Board consists of 6 members.
- The formalities concerned with handing the governance of the Scheme back to the Board of

Trustees, and matters related thereto are being dealt with, and it is anticipated that the governance of the Scheme will be regularised in the near future.



J. Maluleke
Curator
01 November 2011

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Important note

The Group is presenting its summarised annual financial statements in this report. The full set of annual financial statements is available to members from the registered office of the Scheme.



SECTION 01

OVERVIEW: **BONITAS MEDICAL FUND**

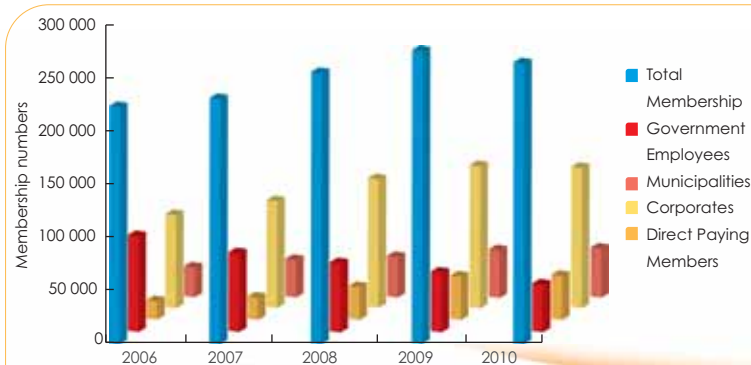
Overview: Bonitas Medical Fund

1. Key financial focus areas

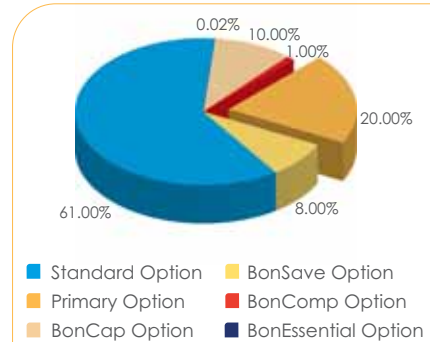
Bonitas key focus is to provide cost-effective, affordable high quality cover to the individuals and organisations situated within the emerging market sector. In order to drive this initiative, membership growth, membership administration and financial stability are the key focus areas which need to be monitored on a continuous basis.

Membership growth

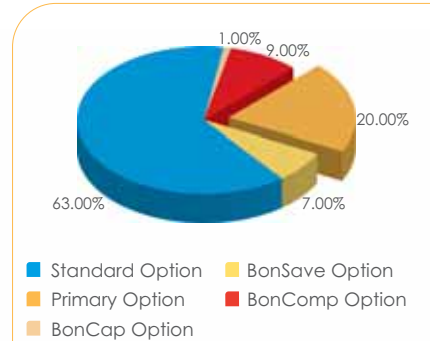
We draw your attention to the movement in total membership between the benefit options in the charts below.



Membership per benefit option 2010



Membership per benefit option 2009



The introduction of the Government Employees Medical Scheme ("GEMS") has had an impact on the overall membership of the Scheme with government employees migrating to GEMS due to the lucrative subsidies offered to government employees. The decline was not unique to Bonitas as the introduction of GEMS resulted in a general market decline in open scheme membership.

Bonitas has taken a decision as part of its growth strategy to focus on corporate groups in order to replace these migrating members. Special attention will be given to the following market sectors:

- Mining
- Manufacturing environment
- Corporates
- Municipalities

The Bonitas product mix is well suited for groups in that it offers a wide range of cover from the top executive to the shop floor worker, which puts us in a position to increase our market share. The Scheme also introduced the BonEssential option into the Scheme's benefit portfolio in the current financial year. The purpose of this new benefit option was to further improve the Scheme's future growth prospects through introducing an affordable benefit option that provides young executives with a choice of a hospital plan which includes various supplementary and limited out-of-hospital dental benefits.

Membership administration

The Management of Bonitas firmly believes that efficient membership administration is an essential necessity to facilitate the successful growth and expansion of the Scheme. Based on this belief, we want to provide to the members certain key administrative indicators, which support the Scheme's administrative successes in the current financial year:

- **Claim processing**

Of the 26.90 million claims lines submitted during 2010, 95% were submitted using electronic channels. Of the approved claims, 100% were processed for payment within ten days of the claim being received. The Scheme continued to improve its exceptional average turnaround time from three days to two days from receipt to payment of electronic claims.

- **Call Centre performance and new membership administration**

The Call Centre continues to provide excellent service to Scheme members. On average, members waited 17.79 seconds before receiving the required service from a Call Centre Agent. Of all calls received, 85.67 % were resolved immediately with an exceptional average turnaround time of just five minutes, requiring no escalation of the queries or

any follow up actions. Only 2.29% of all calls were abandoned. We are proud to confirm that the Scheme processed and approved 37,837 new membership applications, with new members only waiting five days from receipt of their application form to the activation of their membership.

- **Member visits**

The Scheme continues to strive towards service excellence, and one of the tools implemented to reach this goal was the scheduling of numerous member visits and wellness days.

To put the above into context, our customer service teams visited 8,607 paypoints in 2010, where they assisted 60,885 members personally with matters such as product education, member detail updates and signing of new members. In addition, we hosted 132 wellness days at various paypoints where we provided check-ups to members, at their convenience.

Services offered to our members at these wellness days included assessment of blood glucose and cholesterol level assessments and HIV testing.

- **Financial stability**

Bonitas achieved a solid financial performance during the 2010 financial year. The Group reported a net surplus of R276.89 million for the year, exclusive of other comprehensive income of R28.68 million. This is a major turnaround for the Group in comparison to the deficit of R242.28 million experienced in 2009, exclusive of other comprehensive income of R85.53 million.

There are two major reasons for the improvement on the overall results of the Group. Firstly, the introduction of the General Practitioner (GP) network in January 2010 has derived significant efficiencies in respect of the Scheme being able to appropriately manage and reduce its overall healthcare costs to acceptable levels.

Secondly, the Scheme adjusted its benefit pricing to match the risk profile of the overall health care cost market trends. This resulted in the further improvement in the Scheme's benefit portfolio costing structure.

This solid financial performance also had a positive knock-on effect on improving the Scheme's financial stability. This is evident in the following

key financial indicators of the Scheme:

Financial and Operational Indicators	2010	2009	Movement
Members' funds	R 2,63 billion	R 2,33 billion	12.88%
Solvency ratio	36.48%	35.73%	2.10%
Gross contribution income	R 6,91 billion	R 6,19 billion	11.63%

Financial and Operational Indicators	2010	2009	Movement
Net contribution income	R 6,80 billion	R 6,09 billion	11.66%
Average net contribution per member per month	R 2,087	R 1,849	12.87%
Average accumulated funds per member at year end	R 9,241	R 8,135	13.60%

- **Members' funds and solvency**

The Scheme's solvency ratio further improved from 35.73% to 36.48% in the 2010 financial year. This increase was largely attributable to the net surplus of R276.89 million reported by the Group, which automatically resulted in an increase in members' funds.

The Scheme seeks to maintain a solvency ratio in excess of 30% in the medium to long term as this provides sufficient "headroom" in comparison to the minimum solvency requirement of 25% as stipulated in Regulation 29(2) to the Medical Schemes Act 131 of 1998 (amended).

Financial and Operational Indicators	2010	2009	Movement
Available for sale investments	R 1,39 billion	R 1,23 billion	13.01%
Cash and cash equivalents	R 1,44 billion	R 1,34 billion	7.46%
Average return on investments as a % of investments	13,6%	16%	(15%)

- **Available for sale investments and cash and cash equivalents**

Bonitas investment objective is to maximise the return on the Scheme's investments in the long-term, at minimal risk.

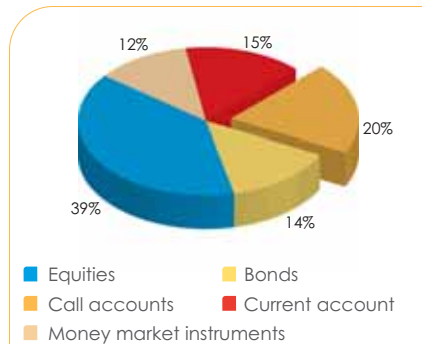
In order to achieve this investment objective, the Scheme has identified that an amount not exceeding the Accumulated Funds of the Group as defined by Regulation 29 of the Act, will be

allocated to a strategic investment portfolio which will be managed by the Finance and Investment Committee of the Scheme in conjunction with the Group's appointed investment advisors, Selekane Asset Consultants (Pty) Ltd ("Selekane").

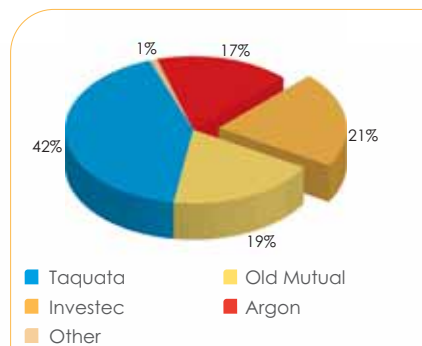
In conjunction with the stipulated guidelines set out in the Scheme's investment mandate, Selekane monitors four asset managers to manage the Scheme's available for sale investments and cash and cash equivalents: Argon Asset Management (Pty) Ltd; Investec Asset Management (Pty) Ltd; Old Mutual Investment Group (SA) (Pty) Ltd and Taquanta Asset Management (Pty) Ltd.

At 31 December 2010 the percentage holdings of managed funds and the investment portfolio structure were as follows:

Investment in portfolio structure at 31 December 2010

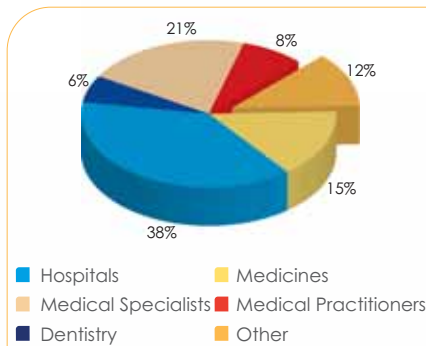


Percentage holdings of managed funds at 31 December 2010

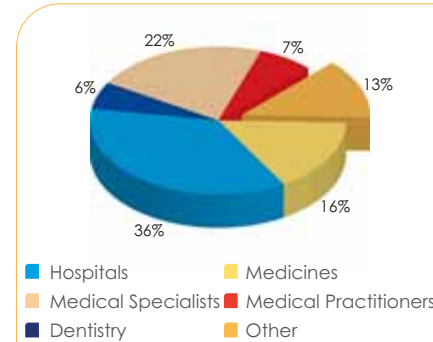


Financial and Operational Indicators	2010	2009	Movement
Average net claims per member per month	R 1,723	R 1,690	1.95%
Average net contribution per member per month	R 2,087	R 1,849	9.63%
Outstanding claims provision	R 233 million	R 257 million	(9.34%)
Non-health care expenditure	R 963 million	R 902 million	6.76%

Claims breakdown 2010



Claims breakdown 2009



• **Claims**

The average net claims per member per month increased year on year by only 2% in comparison to a 12.9% increase in the average net contribution per member per month.

This turnaround is largely attributable to the implementation of the General Practitioner (GP) network in January 2010.

The GP network grew to nearly 5 000 GPs by the end of 2010. In 2010, the benefit design was changed such that members can access greater GP benefits via the GP network compared to outside the

network. This was to encourage members to use the network. In 2010, 90% of GP claims were via network GP's.

The benefits of the Bonitas GP network are multiple. Contracted GP's agree not to charge members co-payments, which means members are not out of pocket when visiting network GP's. GP's can benefit from being part of the network because this initiative is contributing towards the sustainability of private sector healthcare.

In addition, enhanced consultation fees of up to 10% are payable to network doctors that practice quality medicine. For the Scheme, network GP's can help to reduce downstream costs. Taking all of the above, into consideration the GP network resulted in a win-win situation for members, providers and the Scheme.

- **Outstanding claims provision**

The outstanding claims provision is the amount held for unsubmitted claims expected to be incurred during 2010, but which have not yet been paid as at 31 December 2010. The provision has decreased by R 24 million (9.34%) in the 2010 financial year.

- **Global credit rating**

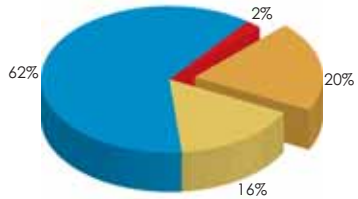
The Scheme was awarded in both 2010 and 2009 an A+ rating by Global Credit Rating Co. on their claims paying ability national rating scale. The claims paying ability ratings are exclusively accorded to insurance/reinsurance companies and rate the probability of timeously honouring policyholder obligations over the medium term.

This rating was achieved based on the fact that the previously high exposure to the government sector has been reduced in recent years, countered by strong growth in the corporate buying segment of the market. The Scheme also reflects a favourable age profile relative to industry norms. The Scheme recorded solid solvency ratios over the past five years and exhibits a large investment portfolio.

- **Non-healthcare expenditure**

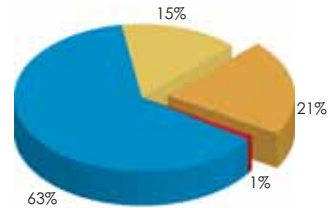
Non-healthcare expenditure increased by R 61.57 million (6.83%) from that incurred in 2009. In order to obtain a comprehensive understanding of the associated cost driving factors, the material line items comprising non-healthcare expenditure have been presented below:

Non-Healthcare Expenditure 2010



- Administration expenditure - R594, 857 mil
- Broker service fees - R153,318 mil
- Managed Care: management services - R198,842 mil
- Other expenditure - R16,125 mil

Non-Healthcare Expenditure 2009



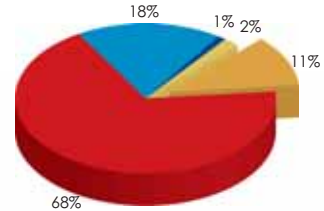
- Administration expenditure - R571,348 mil
- Broker service fees - R135,192 mil
- Managed Care: management services - R183,990 mil
- Other expenditure - R11,027 mil

Administration Expenditure 2009



- Administrator's fees - R419,861 mil
- Investigation fees - R10,825 mil
- Marketing, advertising, and promotions fees - R57,185 mil
- Legal fees - R8,421 mil
- Other expenditure - R98,565 mil

Administration Expenditure 2009



- Administrator's fees - R388,176 mil
- Investigation fees - R13,394 mil
- Marketing, advertising, and promotions fees - R64,839 mil
- Legal fees - R5,363 mil
- Other expenditure - R99,522 mil

- **Managed Care: Management Services**

Managed Care Management services increased by R14.85 million (8.07%) from that incurred in 2009. The increase is directly linked to the annual increase of 14% implemented by the Managed Care providers. The overall increase in Managed Care Management services are in line with the expectations of the Scheme.

- **Broker Service Fees**

Broker service fees increased by R18.13 million (13.41%) from that incurred in 2009. The increase is directly linked to the increase approved by Council. In addition 37,837 new member applications were activated in 2010, a number of these applications being received from Brokers. This therefore also resulted in a further increase in Broker service fees as a majority of these new members were written up by Brokers.

- **Administrator's Fees**

Administrators fees increased by R31.69 million (8.16%) from that incurred in 2009. The increase is ascribed to contractual obligations commensurate to services rendered.

- **Marketing, Advertising and Promotion Fees**

Marketing, advertising and promotion fees decreased by R7.71 million (11.88%) from that incurred in 2009. The decrease is a result of budgetary reductions implemented by the Scheme in order to facilitate the reduction of non-healthcare expenditure.

- **Legal and Investigation Fees**

Legal and investigation fees of R19.25 million in 2010 remained consistent with the fees of R18.76 million in 2009. Investigation fees relate predominantly to the investigation and prosecution of fraudulent claims in line with the Scheme's fraud risk management policies and framework.

2. Corporate sponsorship and social initiatives

Our success at Bonitas Medical Fund is due to the fact that wherever possible, we invest and reinvest, through procurement and corporate social initiatives, as we firmly believe in the upliftment of our communities. These initiatives are also structured to link to our corporate sponsorships. Sponsorship for us is about promoting healthy and active lifestyles for our members. We therefore support initiatives that promote easy access to physical health, like: hiking, running, soccer and cycling.

Comrades Marathon - The ultimate human race

As a full time advocate of healthy lifestyles, what better challenge is there to support other than the Comrades Marathon - also known as The Ultimate Human Race. Our long-term sponsorship of the Comrades Marathon, further entrenches the responsibility we have undertaken to promote easy access to physical health for the masses. Bonitas, in conjunction with the Comrades Marathon Association introduced the Bonitas Comrades Novice Seminars. For the first-time Comrades runner this was an invaluable experience, especially as most have never run an ultra distance event before. This is an opportunity to listen to the professionals as they share their knowledge about the most important aspects of the training regime. Experts covered qualifying requirements and shared their vast knowledge about the training regime with one time marathon runners.

Wildlands initiative

Through the Comrades, the Scheme is involved in an initiative called the Wildlands' Comrades ReLeaf Campaign, one of the five Comrades Charities, which raises funds for the Indigenous Trees for Life Programme.

The Indigenous Trees for Life is a livelihood programme aimed at greening communities and restoring degraded forests and, at the same time, uplifting poor and vulnerable

children and adults, dubbed "Treepreneurs". The Treepreneurs grow indigenous trees from seed, care for the plants until they reach a certain height and then trade them back to the Wildlands Conservation Trust for food, clothes, bicycles, agricultural goods and even school and university fees.

There are now more than 3,000 Treepreneurs in 23 communities around Kwa-Zulu Natal, Mpumalanga and Gauteng, helping to off-set the carbon emissions by industry and all of us.

Bonitas Medical Fund has agreed to underwrite the development of this programme by providing educational support to the participants.

Free State Stars

The Scheme provides full sponsorship to the Premier Soccer League team, Free State Stars. With soccer being the biggest spectator sport in South Africa and indeed the world, our partnership with the team is a strategic one that will help us encourage and promote a healthy lifestyle through sporting sponsorships. We are proud to be a supporter of a local team and its fan base.

Developmental Soccer

Building on the Free State Stars sponsorship, Bonitas has

since gone to grass roots level to identify young talent in order to develop SA's upcoming soccer teams from disadvantaged communities. We embarked on a national campaign where 500 soccer kits were distributed to amateur soccer teams countrywide.

This formed part of our CSI aimed at promoting healthier lifestyles amongst the youth. We realised that the training for these teams is not limited to building soccer skills because they are also taught life skills such as reject, commitment, dedication and values. All nine provinces in the country benefited from this initiative.

Bonitas Cycling Team

At Bonitas we will stop at nothing to "pedal" a healthier lifestyle. We are exceptionally proud and excited to be the main sponsor of what has to be one of the most celebrated teams in Africa. Team Bonitas Medscheme, a ten-man band of professionals led by South African cycling legend, Malcolm Lange, have dominated the national cycling scene for the last two years. In addition to 56 wins in local races, they have also won the prestigious Cape Argus, 94.7 Cycle Challenge and the Amashovashova for two consecutive years. And further afield, they have also earned acclaim in international events in the USA, the United Arab Emirates, Malaysia and India.

This is a team that's set to inspire and enthuse South Africans with their immense talent, strength, athleticism and team spirit. Beyond promoting a healthy lifestyle, team cycling also represents the values that we at Bonitas live by - tenacity, perseverance, sportsmanship, loyalty and fellowship - values that are sure to make Team Bonitas Medscheme one of the true greats of this new decade.

Bonitas Housecall

Hosted by, Dr. Ramathesele, Bonitas Housecall is a medical TV Talk show that has been on air for 6 years, every Saturday from 09h00 to 10h00 on SABC 2. This live weekly programme offers free medical advice and tips as well as focusing on specific medical issues that are in the public domain.

A panel of experts to discuss the subject of the day usually accompanies Dr. Ramathesele. The show is interactive with viewers' calls and text messages being responded to on air by Dr Ramathesele and his panel of experts.

3. Looking forward 2011

Contribution rates

The Board of Trustees ("BoT") approved a weighted average increase for the 2011 contribution rates of 9.6%. Various benefit changes were made in order to

address the deficit in other options incurred in the 2010 benefit year and to ensure that this does not recur in 2011. The increase in contribution rates was determined based on a full actuarial benefit and contribution review of the Scheme.

Restructuring of the Group -

During March 2010 the Board of Trustees confirmed a decision to restructure Pegma Thirty Six Investments (Pty) Limited and Bonitas Marketing (Pty) Limited. At the date of this report, neither the full impact of the restructuring activities nor the final manner in which the restructuring will be performed has been determined by management.

Bonitas City2City Marathon

The newly rebranded marathon was launched in September 2011. The Bonitas City2City Marathon looks set to become Gauteng's top running event, thanks to the expert guidance and professionalism of new owners, Premiere Sport Management, and the support of title sponsor Bonitas Medical Fund, a seasoned marathon supporter - the City2City will undoubtedly boost the popularity of the sport itself.

With the successful launch behind them, race organisers focused on delivering a flawless racing experience on

18 September 2011. It is this sort of commitment to running excellence which is sure to see the Bonitas City2City Marathon achieving its goal: to become Gauteng's premier road-running race and a highlight on the road-running calendar. The historic City2City Ultra-Marathon between Johannesburg and Pretoria has received a face lift and is set to become Gauteng's premier road running race once again.

We would like to express our sincere gratitude to our service providers and members for their loyalty and continued support, and to our staff and all other stakeholders.



J. Maluleke
Curator
20 June 2011

BonComp Option:

This is a new generation option with a threshold to provide members with peace of mind and it covers major medical expenses at 300% of the Scheme's rate. This option covers a wide range of chronic diseases at any service provider and provides unlimited hospitalisation with no hospital network.



SECTION 02
REPORT OF THE **BOARD OF TRUSTEES**

Report of the board of trustees

For the year ended 31 December 2010

1. Management

1.1. General overview of the Board

The affairs of a medical scheme are governed by a Board of Trustees (BoT) in terms of the Medical Schemes Act 131 of 1998 (the Act). Under exceptional circumstances, the governance of the medical scheme may be placed in the hands of someone other than the Board of Trustees.

On 1 August 2010, Mr TD Shangase, an elected Trustee of the Scheme, tendered his resignation to the Scheme. The effect of Mr Shangase's resignation resulted in the board not being able to form a quorum as provided for in its Rules, and therefore was unable to transact business of the Scheme and take decisions regarding the affairs and management of the Scheme.

On 12 August 2010 the Council for Medical Schemes ("the Council") issued notices to members of the BoT in terms of section 46 of the Act in terms of which the Trustees were required to furnish the Council with their respective comments within 30 (thirty) days on

allegations that they were not fit and proper person to be Trustees.

The grounds on which the Council believed that the Trustees were no longer be fit and proper to remain in the office of trustee were, amongst others, that they allowed payments to be made from Bonitas' bank account in contravention of section 26(4) of the Act in relation to Pegma Thirty Six Investments (Pty) Limited and the Clansthal property development and that they continued to embark on property development despite being advised not to do so by the Council and without taking any expert advice when property development is a matter in respect of which the trustees lacked the necessary expertise.

On receipt of the Notices, the BoT approached the Registrar requesting that the time period for responding to these notices should be held in abeyance to give the parties an opportunity to explore the possibility of resolving the pending curatorship application and the section 46 proceedings. The Registrar advised the BoT that the time period for the Trustees to respond to the section 46 notices would not be suspended. The Trustees could however approach the Council and request that the period be extended.

The BoT then brought an urgent application in court seeking an order directing that the time periods for reply to the section 46 notices be stayed pending the finalisation by way of a final Order of Court of an application by the BoT to review the Council's decision to issue the section 46 notices.

Mr G van Emmenis, acting on legal advice, then brought an application to intervene in these proceedings for an order directing the Registrar in terms of section 31(2) of the Act to register the amendment to Rule 18.8 of the Rules of Bonitas to the extent that a quorum is constituted by 50% plus one elected trustees physically present at a meeting of the Board. Members of the Board will, for the purposes of constituting a quorum, not include suspended board members. Alternatively, to grant an order in terms of paragraphs 1 to 5 of the notice of motion in the counter-application subject to the date "30 October 2010 in paragraphs 1 and 5 being amended to 30 November 2010" and further that the Registrar appoint a person to act as a compliance officer for the purpose of overseeing and assisting with the election.

The matter was heard on 17 September 2010 and the court dismissed Mr van Emmenis' application with costs in his personal capacity and ordered that:

- Mr van Emmenis was vested with the powers and function of the BoT, to be exercised in consultation with the Registrar;
- Mr van Emmenis to convene a Special General Meeting of members by no later than 06 December 2010;
- Mr Joseph Maluleke be appointed as a Compliance Officer of Bonitas. Mr Maluleke and Mr van Emmenis were required to report to the Council on a weekly basis.

On 27 May 2011 the South Gauteng High Court granted the Registrar's application, based on an out of court settlement with the Board of Trustees, for curatorship. The court ruling confirmed that Mr Joseph Maluleke has been appointed as Curator on 27 May 2011 and that the powers of the Board of Trustees and the Principal Officer have been entrusted to him. Subsequent to the ruling the Acting Principal Executive Officer, Mr Gerhard van Emmenis, resumed his duties as the Chief Operations Officer.

1.2 Board of Trustees in office during the year under review and at the date of this report

Chairperson:	BP Mpungose - Appointed as chairperson on 29 November 2009
Vice-chairperson:	MS Mncube
Trustees:	L Koch - Appointed 6 February 2010, re appointed 28 August 2010
	MP Zulu
	MN Seobi
	SM Nkosi - Deceased 23 January 2010
	TD Shangase - Resigned 1 August 2010
	WF van Heerden
	S Schoombie - Appointed 28 August 2010
	D Dalamo - Appointed 28 August 2010

Trustees are either member elected or appointed through the Board of Trustees and remain in office for a period of five years. Appointed Trustees will retire at the next Annual General Meeting.

1.3 Acting Principal Executive Officer and Chief Operations Officer

GJ Van Emmenis
The Principal Executive Officer continued in an acting capacity for the current financial year under review.

Physical address

604 Beagle Street
Garsfontein X10
0060

Postal address

P O Box 39022
Garsfontein
0060

1.4 Principal Executive Officer

BD Nkosi
Resigned on 31 January 2010

Physical address

16 Ashley Street
Bryanston
2021

Postal address

P O Box 3496
Cremeriview
2021

1.5 Sub-Committees of the Board of Trustees governing the Scheme

1.5.1 Audit and Risk Committee *

TC Luvhani

Chairperson and independent member

BT Mwelase

Independent member

K Buthelezi

Independent member

KN Vundla

Independent member

LF Theron

Independent member

NM Seobi

Trustee member

WF Van Heerden

Trustee member

Due to the current status of the Board (Refer to note 1 of the Board of Trustees Report) the Audit & Risk Committee was the only Committee that continued to conduct

meetings until 31 December 2010. Mr. Seobi and Mr. Van Heerden did not attend any Audit and Risk Committee meetings after the Court ruling of 17 September 2010

1.5.2 Rules and Benefit Committee *

MP Zulu

Chairperson

MS Mncube

Deceased 23 January 2010

SM Nkosi

Resigned 1 August 2010

TD Shangase

Resigned 1 August 2010

1.5.3 Finance and Investment Committee *

WF van Heerden

Chairperson - Appointed 3 April 2010

BP Mpungose

MP Zulu

MS Mncube

TD Shangase

Resigned 1 August 2010

The Finance and Investment Committee convened for the first time on 3 April 2010, where Mr WF van Heerden was appointed as Chairperson.

1.5.4 Human Resource Committee *

TD Shangase

Chairperson - Appointed 1 August 2010

BP Mpungose

MP Zulu

MS Mncube

1.5.5 Procurement and Contracts Committee *

L Koch

Chairperson - Appointed 3 April 2010

BP Mpungose

MS Mncube

NM Seobi

SM Nkosi

Deceased 23 January 2010

TD Shangase

Resigned 1 August 2010

WF van Heerden

The Procurement and Contract Committee convened for the first time on 3 April 2010, where Ms L Koch, a Trustee appointed in 2010, was appointed as Chairperson.

** All members of these Committees were Trustees of the Scheme.*

1.6 Registered office and postal address

Office address

164 Katherine Street

1st Floor, Block G

Pinmill Farm

Sandton

2199

Postal address

P O Box 3496

Cramerview

2060

1.7 Administrator

Medscheme Holding (Pty) Limited

Physical address

10 Muswell Road South

Medscheme park

Bryanston

2021

Postal address

Private bag X121

Bryanston

2021

1.8 Investment Managers

1.8.1 Old Mutual Investment Group (South Africa) (Pty) Limited

Physical address	Postal address
Mutual Park Jan Smuts Drive Pinelands 2021	P O Box 878 Cape Town 8000

Accreditation number: 21

1.8.2 Investec Asset Management (Pty) Limited

Physical address	Postal address
100 Grayston Drive Sandton 2196	P O Box 785700 Sandton 2146

Financial service provider number: 587

1.8.3 Taquanta Asset Management (Pty) Limited

Physical address	Postal address
7th Floor, Newlands Terrace Boundry Road	P O Box 23540 Claremont South Africa

Newlands 7700
Cape Town
7700

Financial service provider: 618

1.8.4 Argon Asset Management (Pty) Limited

Physical address	Postal address
18th Floor Metropolitan Centre Coen Steytler Avenue Cape Town 8000	P O Box 482 Cape Town 8000

1.9 Investment Advisor

Selekane Asset Consultants (Pty) limited

Physical address	Postal address
Lansdown House Hampton Park 20 Georgian Crescent Bryanston 2152	P O Box 522118 Saxonworld 2132

1.10 Actuary

Health Risk Solutions, a Division of Medscheme Holdings (Pty) Limited

Physical address

The Boulevard
Building F
Searle Street
Woodstock
7925

Postal address

P O Box 38632
Pinelands
7430

1.11 External Auditor

KPMG Incorporated

Physical address

KPMG Crescent
85 Empire Road
Parktown
South Africa
2193

Postal address

Private Bag X9
Parkview
2122

1.12 Internal Auditor

Nkonki Incorporated

Physical address

3 Simba Road
Sunninghill
South Africa

Postal address

P O Box 1503
Saxonworld
2132

1.13 Managed Care Provider

Health Risk Solutions, a Division of Medscheme Holdings (Pty) Limited

Physical address

The Boulevard
Building F
Searle Street
Woodstock
7925

Postal address

P O Box 38632
Pinelands
7430

Accreditation number: MCO: 53

2. Description of the group

2.1. Terms of Registration

The Scheme is a non-profit, open medical scheme registered in terms of the Medical Schemes Act 131 of 1998 (the Act), as amended, and is incorporated and domiciled in the Republic of South Africa. It is the third-largest medical scheme registered in South Africa and the second-largest open medical scheme, and is administered by Medscheme Holdings (Pty) Limited. The Group comprises the Scheme and its two 100%-owned subsidiaries, Bonitas Marketing (Pty) Limited and Pegma Thirty Six Investments (Pty) Limited (the Group).

2.2. Benefit Options

The Scheme offered the following six benefit options to employers and members of the public during the year:

- Standard Option;
- BonSave Option;
- Primary Option;
- BonCap Option;
- BonComp Option; *and
- BonEssential Option._

* Referred to as the BonComp Option in the annual financial statements.

_ The BonEssential Option is a new option introduced into the Scheme with effect from 1 January 2010.

The features of the benefit options are as follows:

Standard Option: Gives complete peace of mind for the whole family. It combines comprehensive cover with generous day-to-day benefits in order to meet the needs of a growing family. The Standard Option has an unlimited overall annual limit and offers substantial chronic medicine benefits.

BonSave Option: Designed for young executives, professionals and active members. The BonSave Option offers a savings account with affordable contributions. The flexibility of savings allows for the payment of out-of-hospital expenses. This option covers private wards for post delivery and has no hospital network.

Primary Option: This option has been designed for members that do not require extensive chronic medicine benefits. With an overall annual limit of R600,000 the Primary Option provides affordable cover with rich day-to-day benefits.

BonCap Option: This option is designed for members who require access to affordable cover at a preferred provider, and generous medical benefits. It offers substantial benefits at affordable rates. This option provides value for money by making use of the

Primecure Network. With an overall annual limit of R500,000 per family, the BonCap Option offers extensive hospital cover, with generous GP consultation and medicine benefits. Members and beneficiaries can access providers that are contracted to the Primecure Network.

BonComp Option: This is a new generation option with a threshold to provide members with peace of mind and it covers major medical expenses at 300% of the Scheme's rate. This option covers a wide range of chronic diseases at any service provider and provides unlimited hospitalisation with no hospital network.

BonEssential Option: This is a new option introduced into the Scheme with effect from 1 January 2010. This option provides young executives with a choice of a hospital plan which includes various supplementary as well as limited out-of-hospital and dental benefits.

2.3. Savings Plan

In order to provide a facility for the Scheme members to set aside funds to meet future healthcare costs not covered in the benefit options, the Trustees have made the savings plan options available to meet this objective.

The BonSave and BonComp Options provide members with the facility to pay an agreed sum, up to a maximum of 25% of their gross contributions, into a savings account to help pay the members' portion of healthcare costs up to a prescribed threshold.

Unspent savings amounts are accumulated for the long-term benefit of the member and interest is paid on the balances at the rate specified in the rules of the Scheme. The liability to the members in respect of the savings plan is reflected as a financial liability in the annual financial statements, repayable in terms of Regulation 10 of the Act. Members are refunded the positive savings balances five months after termination of membership from the Scheme. Should the member join another medical scheme with a savings option after termination, the positive savings balance is transferred to the new scheme.

3. Investment strategy

The Group's investment objective is to maximise the return on its investments on a long-term basis at minimal risk. The investment strategy takes into consideration the limitations imposed by legislation and those imposed by the Board of Trustees.

To achieve this investment objective the Board has identified that an amount not exceeding the Accumulated Funds of the Group as defined by Regulation 29 of the Act, will be allocated to a strategic investment portfolio which will be managed by the Finance and Investment Committee in conjunction with the Group's appointed investment advisors. The Finance and Investment Committee was established and is mandated by the Board of Trustees by means of written Terms of Reference as to its membership, authority and duties. The Committee consists of five members that are also Trustees at 31 December 2010. The Committee met once during 2010. Please refer to note 1 for the current overview of the Board and its Committees.

The mandate of the Finance and Investment Committee is to ensure that:

- The Group remains liquid;
- Available funds are invested in minimum risk investments and attract the best possible rate of return;
- Investments made are in compliance with the Regulations of the Act; and
- A risk assessment is performed and feedback is given to the Board of Trustees on the risks identified with recommendations to manage these risks.

The Group's investment policy is to invest up to a maximum of 40% of the available funds in cash and the balance in absolute return funds. Relevant benchmarks are given to the asset managers and performance is monitored on a quarterly basis.

The Group invested in equities, fixed deposits, money market instruments, bonds, call deposits, cash and in property listed shares. The investment policy is reviewed annually, taking into consideration compliance with the Act, risk and returns of the various investment instruments and surplus funds available. To ensure that compliance will be maintained a decision was taken in the current year to alleviate the Scheme's exposure to currency risk through the sale of the offshore investment and the subsequent reinvestment of the proceeds in locally denominated bonds, money market instruments and diversified share portfolios. This decision did not result in an amendment to the Scheme's investment mandate but was classified as a realignment of the Scheme's assets within the parameters of the current implemented mandate.

The current economic situation has had an impact on the returns of the Group with realised gains being reported on equities as a result of the global economic recovery. The Group has adopted an absolute return

strategy with capital protection which has helped to minimise the investment losses in the past. The current listed equities of the Group have recovered significantly during the current financial year, resulting in unrealised gains at the date of the Statement of Financial Position. Income from property rentals have not been affected in the current financial year as the majority of the lease agreements have contractual obligations for fixed rentals that continue after the date of the Statement of Financial Position.

4. Management of insurance risks

The primary insurance activity carried out by the Group 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 Group's members and their dependants. As such the Group is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

The Group 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, monitoring of emerging issues and the centralised management of risk transfer arrangements.

The Group 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 analysis, scenario analysis 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 the 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 the established statistical techniques. There are no changes to assumptions used to measure insurance assets and liabilities that have a material effect on the annual financial statements and there are no terms and conditions of insurance contracts that have a material effect on the amount timing and uncertainty of the Group's cash flows.

4.1. Risk transfer arrangements

The Group has entered into risk transfer arrangements with the following service providers:

Service provider	Transferred risks
CDE Holdings (Pty) Ltd - (CDE)	Insulin and non-insulin benefits: Standard and BonComp Options
Dental Information Systems (Pty) Limited - (DENIS)	All dental benefits, including dental induced hospitalisation
Netcare 911 (Pty) Limited - (Netcare)	Emergency and evacuation services and international cover
Preferred Provider Network (Pty) Limited - (PPN)	Optical benefits
Primecure Health (Pty) Limited - (Primecure)	All BonCap healthcare benefits

Refer to note 8 of the summarised annual financial statements for the results of these agreements and note 12 of the summarised annual financial statements for the nature, terms and conditions of these agreements.

5. Review of schemes activities during the period

5.1. Operational statistics per benefit option

2010	Total	Standard	BonSave	Primary	BonCap	BonComp	BonEssential*
Average number of members during the year (n)	271,441	167,962	21,319	53,032	24,808	4,005	315
Number of members at 31 December (n)	268,359	163,486	22,193	52,601	25,608	3,972	499
Average number of beneficiaries during the year (n)	628,542	401,473	50,527	133,668	33,250	8,960	664
Number of beneficiaries at 31 December (n)	618,464	389,533	52,563	132,031	34,475	8,851	1,011
Proportion of dependants at the end of the year (n)	1.30	1.38	1.37	1.51	0.35	1.23	1.03
Average net contributions per member per month (R)	2,087	2,506	1,410	1,640	567	3,471	1,547
Average net contributions per beneficiary per month (R)	901	1,048	595	651	423	1,551	734
Healthcare expenditure per average beneficiary per month (R)	764	876	488	526	520	1,785	511
Non-healthcare expenditure per average beneficiary per month (R)	126	131	130	122	68	142	139
Relevant healthcare expenditure as a percentage of gross contributions (%)	83.40%	83.52%	67.01%	80.76%	122.90%	97.85%	69.68%
Non-healthcare expenditure as a percentage of gross contributions (%)	11.04%	9.99%	14.14%	14.94%	15.51%	6.22%	15.02%
Average beneficiary age (n)	31.1	32.5	27.6	27.2	34.7	38.4	30.2
Pensioner ratio at 31 December (%)	4.60%	5.66%	2.40%	1.78%	4.89%	12.46%	4.09%
Chronic profile at 31 December (%)	11.04%	14.64%	5.01%	3.92%	10.03%	30.76%	3.48%

* New option introduced into the Scheme with effect from 1 January 2010

5.1. Operational statistics per benefit option (continued)

2009	Total	Standard	BonSave	Primary	BonCap	BonComp
Average number of members during the year (n)	274,327	179,388	16,611	51,969	22,507	3,852
Number of members at 31 December (n)	279,546	177,654	18,466	54,791	24,714	3,921
Average number of beneficiaries during the year (n)	641,674	432,350	39,300	132,625	28,663	8,736
Number of beneficiaries at 31 December (n)	650,846	427,553	43,573	138,603	32,215	8,902
Proportion of dependants at the end of the year (n)	1.33	1.41	1.36	1.53	0.30	1.27
Average net contributions per member per month (R)	1,849	2,187	1,131	1,441	463	2,798
Average net contributions per beneficiary per month (R)	790	907	478	565	364	1,234
Healthcare expenditure per average beneficiary per month (R)	734	838	417	511	357	1,583
Non-healthcare expenditure per average beneficiary per month (R)	116	114	122	110	162	126
Relevant healthcare expenditure as a percentage of gross contributions (%)	92.81%	92.40%	87.17%	90.54%	98.01%	128.35%
Non-healthcare expenditure as a percentage of gross contributions (%)	11.68%	9.80%	20.37%	15.37%	43.65%	8.08%
Average beneficiary age (n)	30.8	31.9	27.5	27.0	34.8	38.3
Pensioner ratio at 31 December (%)	4.19%	5.06%	2.26%	1.63%	3.88%	12.74%
Chronic profile at 31 December (%)	10.70%	13.32%	4.08%	3.24%	8.00%	29.12%

5.2. Operational statistics for the group

	2010	2009
Average accumulated funds per member (R)	9,241	8,135
Return on investments (%) #	13.6%	16.0%
Breakdown of total amount paid to Scheme administrator:		
Administration fees (R '000)	419,861	388,176
Managed care: management services (R '000)	198,842	183,990
<i>- Calculated as Investment income over Available-for-sale investments and Investment properties.</i>		

The increases in administration fees and managed care: management services fees paid for the year of 8.16% and 8.07% respectively, is due to an inflationary adjustment.

6. Results of operations

The results of the operations are set out in the consolidated annual financial statements and supported by the notes to these annual financial statements.

The Group reported a net surplus for the year of R276.8 million, exclusive of other comprehensive income of R28.7 million. This is major turnaround for the Group in

comparison to the deficit of R242.3 million experienced in 2009, exclusive of other comprehensive income of R85.5 million.

There are two major reasons for the improvement on the overall results of the Group. Firstly, the introduction of the General Practitioner (GP) network in January 2010, has derived major results in respect of the Scheme being able to appropriately manage and reduce its overall healthcare costs to acceptable levels.

Secondly, the Scheme through various initiatives has also managed to keep its non-healthcare costs as low as possible. For the 2010 financial year the administration and managed care costs of the Scheme comprised only 6.1% and 2.9% of gross contribution income respectively. This is well below the industry benchmark. The administration costs in particular have only increased by 4% year on year in comparison to an increase of 27% from 2008 to 2009.

The 2010 contribution rates have been calculated on very conservative tariff inflation and investment return estimates, to ensure that the Scheme budget is in a surplus for the 2010 financial year. This is expected to stabilise the solvency of the Scheme.

7. Solvency ratio (%)

Rand '000	2010	2009
Members' funds per the statements of financial position	2,632,726	2,327,157
Adjusted for:		
Reserves acquired from subsidiaries	19,048	1,879
Unrealised fair value reserve	(124,255)	(95,573)
Cumulative net gains on re-measurement to fair value of investment properties included in the accumulated funds [#]	(7,583)	(20,787)
Accumulated funds per regulation 29	2,519,936	2,212,676
Gross contributions	6,907,418	6,193,402
Solvency ratio (%)	36.48%	35.73%

Cumulative net gains on re-measurement to fair value of investment properties included in the accumulated funds are calculated as follows:

Rand '000	2010	2009
Members' funds per the statements of financial position	2,632,726	2,327,157
At beginning of the year	20,787	39,391
Movement in unrealised gains/(losses) on re-measurement to fair value of investment properties included in accumulated funds	(13,204)	(18,604)
At end of the year	7,583	20,787

8. Reserve account

Movements in the reserve accounts are set out in the annual financial statements in the statement of changes

in members' funds and reserves. There have been no unusual movements that should be brought to the attention of the members of the Group.

9. Outstanding claims

The basis of calculation and movements of the outstanding claims provision is disclosed in note 10 to the annual financial statements and this is consistent with the prior year. There have been no unusual movements that should be brought to the attention of the members of the Group.

10. Actuarial valuation

An actuarial valuation of the Scheme is performed annually and contributions and benefit levels are redesigned in accordance with recommendations from the Actuary. Reports are received on a monthly basis from the Actuary on the status of the Scheme.

11. Events after statements of financial position date

11.1. Outstanding claims provision

The outstanding claims provision is expected to have a run-off period of four months after the date of the statement of financial position.

11.2. Restructuring of the group

During March 2010 the Board of Trustees resolved to restructure the Group. At the date of this report neither the full impact of the restructuring activities nor the final manner in which the restructuring will be performed has been determined by management.

It is anticipated that Pegma Thirty Six Investments (Pty) Limited will be wound up. The proceeds will be distributed to the Scheme in the form of a liquidation dividend.

It is anticipated that Bonitas Marketing (Pty) Limited will be integrated into the Scheme as a going concern. A due diligence has been requested to provide guidance on the most efficient manner of integrating Bonitas Marketing (Pty) Limited into the Scheme.

12. Other matters for reporting to members

12.1. Claim for recovery of ceded policies

An application was brought against Louis Pasteur Hospital Holdings (Pty) Limited (Louis Pasteur) to recover an amount of R68 million (inclusive of interest). The amount claimed is the value of paid

up policies ceded to Louis Pasteur in 1996 as part of the Scheme's shareholder funding obligations that exceeded the Scheme's liability in terms of an underwriting agreement with Louis Pasteur. The matter was due to be heard in May 2010, but the matter was then postponed. The new allocated Court date will be during the course of May 2011.

12.2. Legislative environment

Prescribed Minimum Benefits (PMB)

The interpretation and application of the "pay in full" requirement of Regulation 8(1) to the Act, as it relates to the payment of healthcare providers' accounts for the diagnosis, treatment and care costs of the Prescribed Minimum Benefit conditions (PMB), is a matter of importance in view of the potential impact on the Scheme's long-term financial sustainability, as well as from a governance and management reporting perspective.

In terms of Circular 37 of 2009 issued by the Council for Medical Schemes (CMS) on 15 December 2009, it appeared that according its interpretation, an industry-wide practice existed

whereby medical schemes and administrators failed to comply with the provisions of the Act in respect of the provision and payment of PMBs. In line with the Rules of the Scheme, PMBs are paid at scheme tariff and not on the invoice of the healthcare service provider, as required by the CMS.

In view of the above, the Trustees of the Scheme along with the administrator and a number of other medical schemes obtained a legal opinion from Advocate Salie Joubert SC, during February 2010, in which it was concluded that the interpretation of Regulation 8(1) of the Act can mean nothing other than payment in terms of the rules of the Scheme and subject to the Scheme's tariffs and not payment of the full invoice price claimed by the service provider. The opinion further indicated that the interpretation as currently applied by the CMS based on two Appeal Board decisions, i.e. that medical schemes should pay the full costs as per the invoice price, is actually ultra vires the powers of a medical scheme as provided in terms of the Act and that to enforce the CMS's interpretation will result in an illegality as the schemes will be forced to pay outside their registered rules. In keeping with the opinion of

Senior Counsel, schemes have not budgeted to pay for benefits other than in terms of their respective benefit options.

Following the above-mentioned legal opinion and having discussed and reviewed the possible impact on the medical scheme in consultation with the administrator, the Trustees agreed to support the establishment of a PMB task team by the CMS. The administrator was nominated to represent the medical scheme on the PMB task team. The Trustees thereby confirmed its willingness to collaborate with the CMS during 2010 to establish a practical framework to improve compliance with the provisions of the Act ensuring the delivery of PMB in a sustainable manner, while adhering to its responsibility to act with due care and diligence and ensuring that the financial viability of the Scheme is taken into consideration.

The Code of Conduct in respect of PMB benefits completed by the PMB task team was published on 31 July 2010. It appeared that consensus could not be reached on the problems related to the "payment in full" provisions in Regulation 8 of the Act. Circular 56 of 2010 was issued by the CMS on 27 October 2010. The circular stated that in respect

of the “payment in full” provisions of Regulation 8 of the Act, on which the Code of Conduct is silent, the CMS will continue to enforce the requirements stipulated in the Regulations and to follow the interpretation given by the Appeal Board to the effect that “payment in full” means as per invoice, and not at Scheme tariff. To place this in context, this means that a service provider charging a member for treatment of a PMB condition would be entitled to charge whatever he wants, and the scheme would be obliged to pay this.

As there is no maximum tariff or guideline which informs a service provider how much he can charge for services, there is a potential that the cost of healthcare in this country may begin to spiral upwards, which in turn would lead to schemes possibly having to increase contributions at greater levels.

The Board of Healthcare Funders (BHF) brought an urgent application against the CMS and the Minister of Health on 1 December 2010, for an interim order interdicting the CMS from enforcing its interpretation of Regulation 8(1) of the Act, pending the final adjudication of BHF’s application

for a declaratory order that payment in full means payment in full to the beneficiary as provided for in the rules of a medical scheme.

On the day of the hearing numerous parties attended Court, representing mainly healthcare service providers, intending to intervene as interested parties. It was agreed to remove the matter from the Court roll and a timeline for filing further court papers in the declaratory order application was agreed as follows:

- BHF was required to supplement its founding papers for the declaratory order by 31 January 2011;
- Opposing parties were required to file papers by 28 February 2011; and
- BHF was required to reply by mid March 2011.

Application for a preferential Court date will be made and is estimated earliest May 2011.

The Trustees continue to monitor the activities surrounding this important matter in order to manage the exposure of risk to the Scheme and its members.

The Scheme is committed to protecting the

interests of its beneficiaries and at the same time ensuring that it remains sustainable into the future. The Scheme will therefore await the outcome of the court process before making any further decision regarding the matter.

13. Related party transactions

Refer to the related party disclosure in note 14 to the annual financial statements.

14. Trustee remuneration

Refer to the Trustee remuneration disclosure in note 11 to the annual financial statements.

15. Investments in and loans to employers of members of the scheme and other related parties

The Group holds no direct investments in companies employing members of the Scheme. Medscheme Holdings (Pty) Limited, the contracted administrator of the Scheme has a significant administrative role in the management and operation of the Scheme. Payments are made in terms of the administration agreement and were as follows:

	2010	2009
Administration fees	419,861	388,176

The Group currently has direct investments in the following entities:

15.1. Subsidiaries

The Scheme has investments in Bonitas Marketing (Pty) Limited and Pegma Thirty Six Investments (Pty) Limited. These entities are wholly owned subsidiaries of the Scheme. Bonitas Marketing (Pty) Limited is responsible for the marketing activities of the Scheme. Pegma Thirty Six Investments (Pty) Limited is a specialised residential development company. However it should be noted that Pegma Thirty Six Investments (Pty) Ltd has ceased the property development business from 1 January 2010.

15.2. Unlisted Investment

Louis Pasteur Hospital (Pty) Limited (Louis Pasteur)

The Scheme has a 26% ordinary shareholding in Louis Pasteur. The investment was re-valued in the current year. Members of the Group utilise the facilities of this entity for medical services rendered.

Louis Pasteur has not been regarded as an associate as the Group has no significant influence over the entity.

16. Audit and risk committee

An Audit and Risk Committee was established in accordance with the provisions of the Act. The Audit and Risk Committee is mandated by the Board of Trustees by means of written Terms of Reference as to its membership, authority and duties. The Committee consists of seven members of which two are Trustees at 31 December 2010. The majority of the members, including the Chairperson, are not officers of the Scheme, its subsidiaries or its third party administrator. The Committee met five times during 2010. The Audit and Risk Committee members are noted in section 1.5 'Sub-Committees of the Board of Trustees Governing the Scheme' of this report and meeting attendance is noted in section 20 'Board of Trustees and Sub-Committee Meeting Attendance' of this report.

The Chairperson of the Board of Trustees, the Senior Financial Manager of the Scheme's administrator and the external auditor attend all Committee meetings per invitation and have unrestricted access to the

Chairperson of the Committee. Internal auditors are invited to committee meetings that specifically address internal audit matters. In accordance with the provisions of the Act, the primary responsibilities of the Committee are to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems and financial reporting practices. The external auditor formally reports to the Committee on critical findings arising from audit activities.

17. Finance and investment committee

A Finance and Investment Committee was established and is mandated by the Board of Trustees by means of written Terms of Reference as to its membership, authority and duties. The Committee consists of four members at 31 December 2010, all of which are members of the Board of Trustees. The Committee met once during the course of the year. The Chairperson of the Board of Trustees and the Senior Financial Manager of the Scheme's administrator have unrestricted access to the Chairperson of the Committee. The primary responsibility of the Committee is to assist the Board of Trustees in carrying out its duties relating to the investment policy of the Scheme.

18. Internal audit

A formal internal audit function exists within the Scheme's administrator, with regular reporting to the Audit and Risk Committee. A structured internal audit plan was reviewed and approved by the Audit and Risk Committee for input and suggestions in the first quarter of the year. This audit plan was also reviewed by the external auditor for reliance on internal audit work and in formalising their audit strategy. In addition to the internal audit function within the Scheme's administrator, Nkonki Incorporated provides an internal audit function to the Scheme.

The Scheme receives specific internal audit reports with regard to all functions performed by Medscheme Holdings (Pty) Limited and Nkonki Incorporated, which are reviewed to ensure sound and accurate administration.

19. Board of trustees and sub-committee meeting attendance

The following schedule summarises the attendance by Trustees and/or Sub-Committee members at the Board of Trustees and Sub-Committee meetings held during 2010:

Trustee and/or Sub-Committee member	Board of Trustees		Audit & Risk Committee		Rules & Benefits Committee		Finance & Investment Committee		Procurement & Contracts Committee	
	A	B	A	B	A	B	A	B	A	B
BP Mpungose *	18	18	-	-	-	-	1	1	1	1
TD Shangase *	15	15	-	-	3	3	-	-	1	-
MS Mncube *	18	18	-	-	4	4	1	1	1	1
MP Zulu *	18	18	-	-	4	4	1	1	-	-
NM Seobi *	18	18	5	2	-	-	-	-	1	1
WF van Heerden *	18	8	5	2	-	-	1	1	1	-
L Koch*	18	15	-	-	-	-	1	1	1	1
BT Mwelase	-	-	5	4	-	-	-	-	-	-
K Buthelezi	-	-	5	3	-	-	-	-	-	-
KN Vundla	-	-	5	2	-	-	-	-	-	-
LF Theron	-	-	5	5	-	-	-	-	-	-
TC Luvhani	-	-	5	4	-	-	-	-	-	-

A - Total possible number of meetings member could have attended
The Human Resources Committee did not meet during the year under review.

B - Actual number of meetings attended

* Trustee

20. Non-compliance with the act

The following areas of non-compliance with the Act were identified during the course of the financial year:

20.1. Loss making options

Nature and cause

In terms of Section 33 of the Act, the Registrar may withdraw the approval of such benefit options which in his opinion are not financially sound. For the year ended 31 December 2010 the Group reported a net deficit on three of its benefit options:

Rand '000	2010	2009
Standard Option	*	95,481
BonSave Option	111	15,457
Primary Option	*	48,211
BonCap Option	48,141	34,398
BonComp Option	37,568	46,849
BonEssential Option	*	–

Possible impact

Loss making benefit options erode the solvency margin of the Scheme, however due to significant surpluses that were reported on the Bonitas Standard and Primary options the impact of the

loss making options has not materially affected the overall position of the Scheme for 2010.

Corrective course of action

The Scheme is attempting to remove the deficit on the BonComp and BonSave options by reviewing the contribution increases relative to the other benefit options. The Scheme is also looking into the benefit design of these options in order to limit the cost of claims.

BonCap option is reflecting a large deficit. BonCap is a capitated option with Primecure. The Scheme is working with Primecure to find ways of removing this deficit.

20.2. Contravention of the 3-day rule

Nature and cause

In terms of Section 26 (7) of the Act, all contributions shall be paid directly to a medical scheme no later than 3 days after becoming due. The Scheme has entered into debt repayment arrangements with certain members, in order to limit the loss to the Scheme and other members that may arise from non-payment, thereby contravening the 3-day rule.

* These benefit options reported a net surplus for the 2010 financial year.

– The BonEssential Option is a new option introduced into the Scheme with effect from 1 January 2010.

Possible impact

Significant debt repayment arrangements with members could affect the liquidity of the Scheme and its ability to service members.

Corrective course of action

There is no negative impact on the Scheme. The Scheme has entered into debt repayment arrangements with 209 members in order to limit the loss to the Scheme. The value of affected accounts receivable balances is R313 000 of the 'Contributions receivable' at the year end.

Possible impact

There is no negative impact to any members of the Scheme as the Scheme is currently honouring its obligation to the members affected by these amalgamations.

Corrective course of action

The Scheme obtained an exemption notice on 1 June 2010 in terms of section 8(h) of the Medical Schemes Act from Council in respect to the non compliance raised.

20.3 Contravention of Section 26(11)

Nature and cause

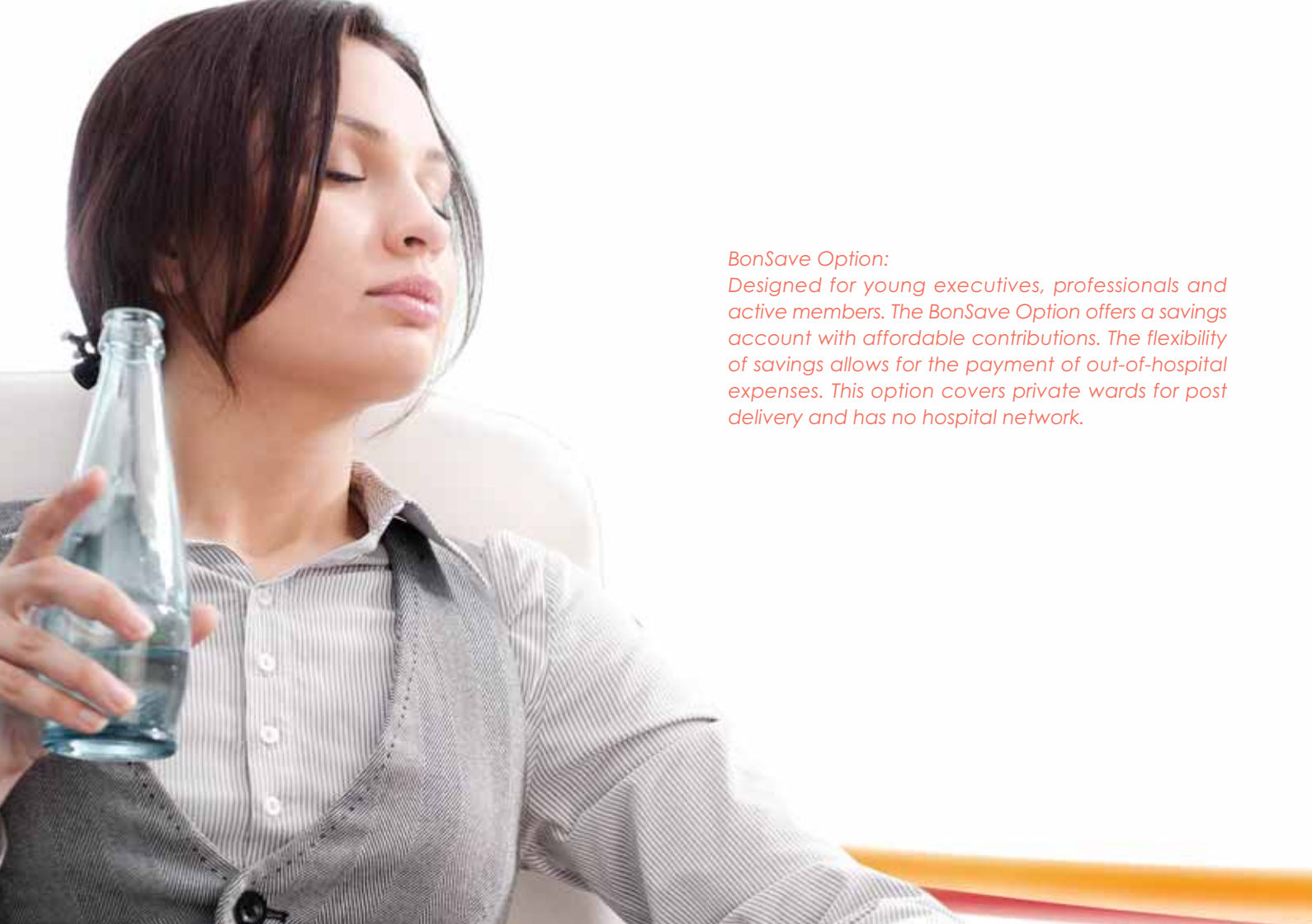
As a result of the amalgamation between Bonitas Medical Scheme and Protector Health on 1 January 2006 a post retirement health obligation arose with reference to the provisions stipulated in Protector Health's prior amalgamation agreement with Vaalmed. This resulted in an unavoidable contravention of section 26(11) of the Medical Schemes Act as retirement funding of any sort is not considered to be the business of a medical scheme.

21. Appreciation

The Group would like to express its sincere gratitude to our service providers and the members for their loyalty and continued support, our staff and all other stakeholders.



J Maluleke - Curator
(Duly authorised in terms of an order of the Court dated 27 May 2011)
20 June 2011



BonSave Option:

Designed for young executives, professionals and active members. The BonSave Option offers a savings account with affordable contributions. The flexibility of savings allows for the payment of out-of-hospital expenses. This option covers private wards for post delivery and has no hospital network.

SECTION 03
STATEMENT OF RESPONSIBILITY OF THE
BOARD OF TRUSTEES

Statement of responsibility of the board of trustees for the year ended 31 December 2010

Annual financial statements and annual report

The Trustees are responsible for the preparation, integrity and fair presentation of the stand-alone and annual financial statements of Bonitas Medical Fund (the Scheme) and its subsidiaries (the Group). The summarised annual financial statements presented on pages 53 to 96 have been prepared in accordance with International Financial Reporting Standards (IFRS) and include amounts based on judgements and estimates made by management.

The annual financial statements comprise the statements of financial position at 31 December 2010; the statements of comprehensive income, the statements of changes in members' funds and reserves and the statements of cash flows for the year then ended; and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes.

The 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 Trustees are satisfied that the information contained in these annual financial statements fairly presents the results of operations for the year and the financial position of the Group and the Scheme at year-end.

The Trustees also prepare other information included in the annual report and are responsible for both its accuracy and its consistency with the annual financial statements.

Accounting records and control environment

The Trustees are responsible for ensuring that accounting records are kept. The accounting records disclose with reasonable accuracy the financial position of the Scheme and the Group, which enables the Trustees to ensure that the annual financial statements comply with the relevant legislation.

The Group operates in a well-established controlled 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.

Going concern

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

External auditor's responsibility

The external auditor is responsible for auditing the consolidated annual financial statements in terms of International Standards on Auditing and their report is presented on page 49.

Approval of the annual financial statements

The Group and Scheme annual financial statements as identified above were approved by the Curator on 20 June 2011 and are signed on its behalf by:



J Maluleke - Curator
(Duly authorised in terms of an order of the Court dated
27 May 2011)
20 June 2011

SECTION 04

STATEMENT OF **CORPORATE GOVERNANCE**

Statement of corporate governance for the year ended 31 December 2010

The Group is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders.

The Board of Trustees, consisting of the Chairperson, Vice-chairperson and five Trustees at 31 December 2010, are nominated and elected by the members of the Scheme.

Board of Trustees

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

Internal control

The Group maintains internal controls and accounting systems designed to provide reasonable assurance as to the integrity and reliability of the consolidated annual financial statements and to safeguard, verify and maintain accountability for its assets adequately. Such controls are based on established policies and procedures and are

implemented by trained personnel with the appropriate segregation of duties.

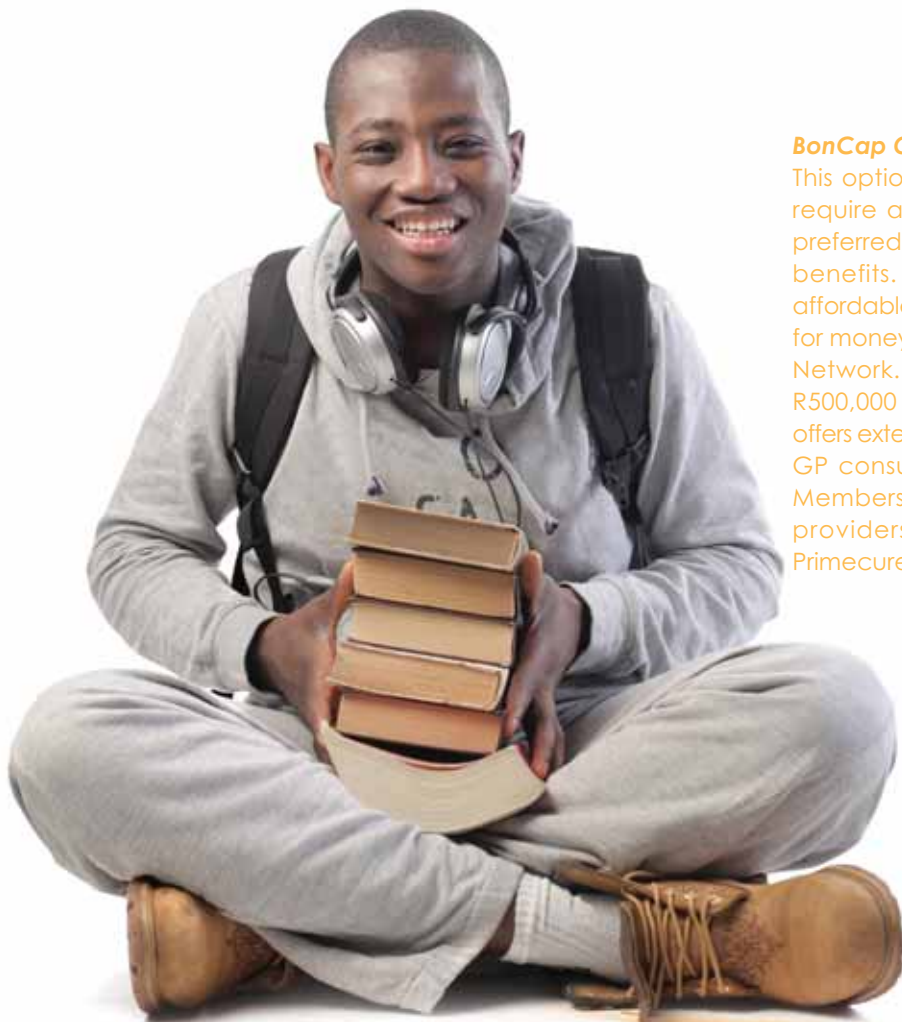
No event or item has come to the attention of the Board of Trustees that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review.



J Maluleke - Curator

(Duly authorised in terms of an order of the Court dated 27 May 2011)

20 June 2011



BonCap Option:

This option is designed for members who require access to affordable cover at a preferred provider, and generous medical benefits. It offers substantial benefits at affordable rates. This option provides value for money by making use of the Primecure Network. With an overall annual limit of R500,000 per family, the BonCap Option offers extensive hospital cover, with generous GP consultation and medicine benefits. Members and beneficiaries can access providers that are contracted to the Primecure Network.

SECTION 05

INDEPENDENT AUDITORS REPORT

Independent auditors report on Summarised Annual Financial Statements

To the members of Bonitas Medical Fund

The accompanying summarised group annual financial statements and annual financial statements of Bonitas Medical Fund set out on pages 53 to 96, which comprise the statements of financial position at 31 December 2010, and the related statements of comprehensive income, changes in equity and cash flows for the year then ended and related notes, are derived from the group annual financial statements and annual financial statements of Bonitas Medical Fund for the year ended 31 December 2010. We expressed an unmodified opinion on those annual financial statements in our auditor's report dated 20 June 2011.

The summarised group annual financial statements and annual financial statements do not contain all the disclosures required by International Financial Reporting Standards applied in the preparation of the group annual financial statements and annual financial statements of Bonitas Medical Fund. Reading the summarised group annual financial statements and annual financial statements, therefore, is not a substitute for reading the audited annual financial statements.

Trustee's Responsibility for the Summarised Financial Statements

The Trustee's are responsible for the preparation of the summarised group annual financial statements and annual financial statements on the basis described on Note 2.1.2.

Auditor's responsibility

Our responsibility is to express an opinion on the summarised group annual financial statements and annual financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

Opinion

In our opinion, the summarised group annual financial statements and annual financial statements derived from the group annual financial statements and annual financial statements of Bonitas Medical Fund for the year ended 31 December 2010, are consistent, in all material

respects, with those financial statements, on the basis described in Note 2.1.2.

Without qualifying our opinion, we draw attention to Note 17.1 to the summarised annual financial statement which indicates that the previously issued annual financial statements for the year ended 31 December 2010, on which we issued an auditor's report dated 26 April 2011, have been revised and reissued. The note also indicates and gives reasons for the revision of the previously issued financial statements.

KPMG Inc.



Per T Fubu

Chartered Accountant (SA)

Registered Auditor

Director

20 June 2011



Standard Option:

Gives complete peace of mind for the whole family. It combines comprehensive cover with generous day-to-day benefits in order to meet the needs of a growing family. The Standard Option has an unlimited overall annual limit and offers substantial chronic medicine benefits.

SECTION 06
SUMMARISED ANNUAL **FINANCIAL STATEMENTS**

Statements of financial position as at 31 December 2010

Rand '000	Notes	Group		Scheme	
		2010	2009	2010	2009
ASSETS					
Property, plant and equipment		2,140	3,316	91	70
Investment properties	4	66,715	79,510	37,840	36,640
Available-for-sale investments	5	1,079,651	1,126,681	1,079,651	1,126,681
Investment in subsidiaries		-	-	39,281	54,927
Non-current assets		1,148,506	1,209,507	1,156,863	1,218,318
Available-for-sale investments	5	306,058	101,596	306,058	101,596
Insurance, trade and other receivables		368,894	340,135	367,971	337,050
Cash and cash equivalents		1,436,886	1,336,379	1,435,124	1,333,973
Deferred taxation		79	-	-	-
Current assets		2,111,917	1,778,110	2,109,153	1,772,619
Total assets		3,260,423	2,987,617	3,266,016	2,990,937
MEMBERS' FUNDS AND LIABILITIES					
Accumulated funds		2,508,471	2,231,584	2,509,474	2,232,435
Available-for-sale fair value reserve		124,255	95,573	124,255	95,573
Members' funds		2,632,726	2,327,157	2,633,729	2,328,008
Outstanding claims provision	6	232,672	256,625	232,672	256,625
Savings plan liability		36,348	33,632	36,348	33,632
Insurance, trade and other payables		358,677	369,750	363,267	372,672
Deferred taxation		-	453	-	-
Current liabilities		627,697	660,460	632,287	662,929
Total members funds and liabilities		3,260,423	2,987,617	3,266,016	2,990,937

Statements of comprehensive income for the year ended 31 December 2010

Rand '000	Notes	Group		Scheme	
		2010	2009	2010	2009
Net contribution income	7	6,797,119	6,086,595	6,797,119	6,086,595
Relevant healthcare expenditure	8	(5,760,879)	(5,649,029)	(5,760,879)	(5,649,029)
Net claims incurred	8	(5,613,505)	(5,561,808)	(5,613,505)	(5,561,808)
Claims incurred		(5,631,441)	(5,579,428)	(5,631,441)	(5,579,428)
Third party claim recoveries		17,936	17,620	17,936	17,620
Net expense on risk transfer arrangements	8	(147,374)	(87,221)	(147,374)	(87,221)
Risk transfer arrangement fees/premiums paid		(840,803)	732,315	(840,803)	(732,315)
Recoveries from risk transfer arrangements		693,429	645,094	693,429	645,094
Gross healthcare result		1,036,240	437,566	1,036,240	437,566
Managed care: management services		(198,842)	(183,990)	(198,842)	(183,990)
Broker service fees		(153,318)	(135,192)	(150,646)	(133,723)
Administrative expenditure		(594,857)	(571,348)	(596,046)	(570,286)
Net impairment losses on insurance and trade receivables		(6,056)	(95)	(6,056)	(95)
Net healthcare result		83,167	(453,059)	84,650	(450,528)
Other income		203,789	221,714	218,054	220,879
Investment income	9	197,874	209,591	212,139	208,757
Sundry income		5,915	12,123	5,915	12,122
Other expenditure		(10,069)	(10,932)	(25,665)	(10,747)
Interest on savings plan liability		(1,364)	(765)	(1,364)	(765)
Asset management fees		(7,963)	(6,676)	(7,963)	(6,676)
Net impairment losses on other receivables		-	(1,412)	-	(906)
Impairment of investment in subsidiary		-	-	(15,646)	(2,400)
Loss on derecognition of motor vehicle		-	(115)	-	-

Statements of comprehensive income *(continued)* for the year ended 31 December 2010

Rand '000	Notes	Group		Scheme	
		2010	2009	2010	2009
Dorbyl restructuring expenditure		(692)	-	(692)	-
Taxation		(50)	(1964)	-	-
Net surplus/(deficit) for the year		276,887	(242,277)	277,039	(240,396)
Other comprehensive income		28,682	85,531	28,682	85,531
Unrealised fair value gains on available-for-sale investments	6	68,001	152,981	68,001	152,981
Realised gains on disposal of available-for-sale investments		(39,319)	(67,450)	(39,319)	(67,450)
Total comprehensive income/(loss) for the year		305,569	(156,746)	305,721	(154,865)

Statements of changes in members' funds and reserves for the year ended 31 December 2010

Rand '000	Accumulated funds	Available-for-sale fair value reserve	Total Members' funds
Group			
Balance as at 1 January 2009	2,473,861	10,042	2,483,903
Net deficit for the year	(242,277)	-	(242,277)
Other comprehensive income	-	85,531	85,531
Balance as at 1 January 2010	2,231,584	95,573	2,327,157
Net surplus for the year	276,887	-	276,887
Other comprehensive income	-	28,682	28,682
Balance as at 31 December 2010	2,508,471	124,255	2,632,726
Scheme			
Balance as at 1 January 2009	2,472,831	10,042	2,482,873
Net deficit for the year	(240,396)	-	(240,396)
Other comprehensive income	-	85,531	85,531
Balance as at 1 January 2010	2,232,435	95,573	2,328,008
Net surplus for the year	277,039	-	277,039
Other comprehensive income	-	28,682	28,682
Balance as at 31 December 2010	2,509,474	124,255	2,633,729

Statements of cash flows for the year ended 31 December 2010

Rand '000	Notes	Group		Scheme	
		2010	2009	2010	2009
Cash flows from operating activities					
Cash generated from/(utilised in) operations before working capital changes		73,643	(420,393)	73,328	(418,155)
Working capital changes					
Increase in insurance, trade and other receivables		(26,611)	(77,297)	(28,941)	(83,444)
(Decrease)/increase in insurance, trade and other payables		(11,073)	15,925	(9,401)	20,490
Increase in savings plan liability		2,716	13,903	2,716	13,903
Cash generated from/(utilised in) operating activities		38,675	(467,862)	37,702	(467,206)
Net interest paid out on savings plan liabilities on members' resignation		(1,880)	(586)	(1,880)	(586)
Taxation paid		(1,067)	-	-	-
		35,728	(468,448)	35,822	(467,792)
Cash flows from investing activities					
Additions to property, plant and equipment		(357)	(1,998)	(77)	(7)
Proceeds on disposal of investment property		-	35,910	-	35,910
Additions to investment property		(409)	-	-	-
Investment in subsidiaries		-	-	-	(2,921)
Proceeds on disposal of available-for-sale investments	5	49,199	43,500	49,199	43,500
Interest received		13,475	6,038	13,353	4,522

Statements of cash flows *(continued)* for the year ended 31 December 2010

Rand '000	Notes	Group		Scheme	
		2010	2009	2010	2009
Dividends received		312	323	312	323
Rentals received		2,559	2,971	2,542	2,903
		64,779	86,744	65,329	84,230
Net increase/(decrease) in cash and cash equivalents		100,507	(381,704)	101,151	(383,562)
Cash and cash equivalents at beginning of the year		1,336,379	1,718,083	1,333,973	1,717,535
Cash and cash equivalents at end of the year		1,436,886	1,336,379	1,435,124	1,333,973

Notes to the annual financial statements for the year ended 31 December 2010

1. General information

The Scheme is a non-profit, open medical scheme registered and domiciled in the Republic of South Africa in terms of the Medical Schemes Act 131 of 1998 (the Act). The Scheme is administered by Medscheme Holdings (Pty) Limited.

The Group comprises the Scheme and its two 100%-owned subsidiaries, Bonitas Marketing (Pty) Limited and Pegma Thirty Six Investments (Pty) Limited.

2. Significant accounting policies

The principal accounting policies applied in the preparation of the annual financial statements are set out below. These policies have been consistently applied with the prior year.

2.1. Basis of preparation

2.1.1. Statement of compliance

These annual financial statements are prepared in accordance with International Financial Reporting

Standards (IFRS) as defined by IAS 1, interpretations of those Standards and in the manner required by the Act and the Regulations thereto.

2.1.2. Basis of measurement

The Summarised Annual Financial Statements have been prepared in accordance with IFRS. The Summarised Annual Financial Statements are prepared on the going concern principle using the historical cost basis except for available-for-sale financial assets and investment property that are measured at fair value.

2.1.3. Functional and presentation currency

These annual financial statements are prepared in Rand which is the Scheme's functional and presentation currency. All financial information presented has been rounded to the nearest thousand, unless otherwise stated.

2.1.4. New standards, amendments to published standards and interpretations

In 2010, the Group did not early adopt any new,

revised or amended standards. The following new standards, amendments to published standards and interpretations which became effective for the annual period commencing on 1 January 2010 are relevant to the Group:

IFRS 3 (revised): Business Combinations

Consequential amendments to IAS 27, Consolidated and Separate Financial Statements; IAS 28, Investments in Associates and IAS 31, Interests in Joint Ventures

IFRS 3 (revised) has been issued after completion of the IASBs second phase of its business combinations project and is now largely aligned with US accounting. Medical schemes were previously excluded from the scope of IFRS 3 however the amendment to include mutual entities in the scope of IFRS 3 (revised) now requires all medical schemes to apply the requirements of the revised IFRS 3. The Group had elected to apply IFRS 3 to business combinations in previous accounting periods.

The comprehensively revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured

through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations on or after 1 January 2010.

Annual Improvements Project 2009

As part of its annual improvements project, the International Accounting Standards Board (IASB) issued 'Improvements to International Financial Reporting Standards 2009' in April 2009. These amendments consist of various necessary, but non-urgent, amendments to issued accounting standards and interpretations that will not be part of another major project of the Board. Most of these amendments are effective for annual periods beginning on or after 1 January 2010. The Group adopted these amendments in 2010 (with the exception of those listed under 'New accounting standards and interpretations not yet adopted'). It was assessed that the application of the majority of the amendments will not have a significant effect on the results, nor will it require any restatement of prior period results.

The standards relevant to the Group affected by these amendments effective for the annual period beginning on 1 January 2010 are:

- IAS 1 (revised), Presentation of Financial Statements
- AS 7 (revised), Statement of Cash Flows
- AS 17, Leases
- IAS 18, Revenue
- IAS 36, Impairment of Assets
- IAS 38, Intangible Assets
- IAS 39, Financial Instruments: Recognition and Measurement

The only significant amendment that will affect the Group is IAS 7: 'Amendments to IAS 7 Statement of Cash Flows'. The amendments specify that only expenditures that result in a recognised asset in the statements of financial position can be classified as investing activities in the statements of cash flows.

Other

A number of amendments to issued accounting standards and interpretations, which are not relevant to the Group and have no impact on the financial position, results or cash flow information of the Group are effective for annual periods beginning on or after

1 January 2010 and have consequently been adopted.

2.1.5. New standards, amendments to existing standards and interpretations that are not yet effective and have not been early adopted

The following standards and amendments to existing standards have been published and are mandatory and relevant to the Group's accounting periods beginning on or after 1 January 2011, or later periods, but the Group has not early adopted them:

IFRS 9: Financial instruments

IFRS 9 addresses classification and measurement of financial assets and is available for early adoption immediately. IFRS 9 replaces the multiple classification and measurement models in IAS 39. Financial assets are classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets and are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, certain transaction costs. Financial assets are subsequently measured at amortised cost or fair value. All equity instruments are measured at fair value and

an entity will make an irrevocable decision on whether to recognise fair value gains or losses in other comprehensive income or profit or loss. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value through profit or loss.

IFRS 9 represents the first milestone in the IASBs planned replacement of IAS 39 and is expected to have a significant impact on the Group's financial statements and will become effective for annual periods on or after 1 January 2013.

IFRS 7: Amendment to IFRS 7 Disclosures - Transfer of Financial Assets

The amendments are intended to address concerns raised during the financial crisis by the G20, among others, that financial statements did not allow users to understand the ongoing risks the entity faced due to derecognised receivables and other financial assets.

IAS 24 Related Party Disclosures

IAS 24 requires a reporting entity to disclose transactions with its' related parties and relationships between parents

and subsidiaries irrespective of whether there have been transactions between those related parties. IAS 24 (revised) simplifies the definition of a related party, clarifying its' intended meaning and eliminating inconsistencies from the definition and provides a partial exemption from the disclosure requirements for government-related entities. The Group is in the process of evaluating the detailed requirements of the remainder of the amendments; however they are not expected to have a significant impact on the annual financial statements.

Annual Improvements Project 2010

In May 2010, the IASB issued the 'Improvements to International Financial Reporting Standards 2010'. The standard includes 11 amendments to seven International Financial Reporting Standards. These amendments consist of various necessary, but non-urgent, amendments to issued accounting standards and interpretations that will not be part of another major project of the Board. Most of these amendments are effective for annual periods beginning on or after 1 January 2011.

A disclosure amendment to IFRS 7 clarifies the intended interaction between qualitative and quantitative

disclosures of the nature and extent of risks arising from financial instruments and removes certain disclosures which were seen to be superfluous or misleading. As the change in accounting policy only results in additional disclosures it is not foreseen to impact results, financial position or cash flows of the Group.

The Group is in the process of evaluating the detailed requirements of the remainder of the amendments; however they are not expected to have a significant impact on the Group or Scheme's annual financial statements.

Other

A number of amendments to issued accounting standards and interpretations, which are not relevant to the Group and are expected to have no impact on the financial position, results or cash flow information of the Group will be effective for annual periods beginning on or after 1 January 2011.

2.2. Events after statement of financial position date

Recognised amounts in the consolidated annual financial statements are adjusted to reflect events

arising after the statement of financial position date that provide evidence of conditions that existed at the statement of financial position date. Events arising after the statement of financial position date that are indicative of conditions that arose after the statement of financial position date are dealt with by way of a note disclosure.

2.3. Basis of consolidation

2.3.1. Business combinations

The acquisition method of accounting is used when a business is acquired.

The cost of acquisition is the consideration given in exchange for control over the identifiable assets, liabilities and contingent liabilities of the acquired entity. This consideration includes the cash paid plus the fair value at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the Group.

Contingent consideration arrangements are included in the cost of acquisition at fair value. Directly attributable transaction costs are expensed in the current period and reported within administrative expenses. The acquired net assets being the

identifiable assets, liabilities and contingent liabilities, are initially recorded at fair value on the acquisition date. Where the Group does not obtain 100% ownership over the acquired entity, non-controlling interests are recorded as the portion of the fair value of the acquired net assets.

When an acquired entity is amalgamated into the Group, all identifiable assets, liabilities, and members funds are accounted for at predecessor fair values. No consideration is paid for these transactions and they are recognised as from the transaction date. Fair values of the identifiable assets and liabilities are determined by reference to market values of those or similar items at the acquisition date, irrespective of the extent of any non-controlling interests, where these values are available. Alternatively, these values are determined by discounting expected future cash flows to present values.

2.3.2. Subsidiaries

Subsidiaries are all entities over which the Scheme has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether

the Scheme controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Scheme. They are de-consolidated from the date on which control ceases.

Where necessary, adjustments are made to the results of subsidiaries to ensure the consistency of their accounting policies with those used by the Group. Intercompany transactions, balances and unrealised profits and losses between Group entities are eliminated on consolidation.

Investments in subsidiaries in the separate financial statements presented by the Scheme are recognised at cost less accumulated impairment.

2.4. Investment property

Property held to earn rental income and held for appreciation in capital value that is not occupied by the entities in the Group is classified as investment property.

Investment property comprises freehold land and buildings and is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset determined annually by external

independent professional valuers. Investment property for which the market has become less active, continues to be measured at fair value. Changes in fair values are recorded in the statement of comprehensive income for the period as 'Change in fair value of investment properties' in the 'Investment income' note. If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

2.5. Outstanding claims provision

Outstanding claims comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but not yet reported (IBNR) at the date of the statement of financial position. Outstanding claims are actuarially 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 and payments from savings

plan accounts are deducted in calculating the outstanding claims provision. The Group does not discount its provision for outstanding claims, since the effect of the time value of money is not considered material. The estimation of claims to be paid by the Group is up to four months after treatment date.

2.6. Relevant healthcare expenditure

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

2.7. Risk transfer arrangements

Risk transfer fees are recognised as an expense over the indemnity period on a straight-line basis. If applicable, a portion of risk transfer fees is treated as prepayments.

Capitation fees relating to risk transfer arrangements are calculated on a per member per month basis. Payment is made to the relevant capitation entity on the presentation of an approved invoice. Risk transfer claims and benefits reimbursed are presented in the statement of comprehensive income and the statement of financial position on a gross 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. Claims recoveries relating to risk transfer arrangements represent a recovery in kind of the amount that the Group would have incurred in claims, had the risk transfer arrangement not been in place.

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 limited in a manner consistent with the outstanding claims provisions, claims reported not yet paid and settled claims associated with the risk transfer arrangement.

Amounts recoverable under risk transfer arrangements are assessed for impairment at each statement of financial position 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 Group may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Group will receive under the risk transfer arrangement.

2.8. Allocation of income and expenses to benefit options

The following items are directly allocated to benefit options:

- Net contribution income;
- Net claims incurred;
- Net expenses on risk transfer arrangements;
- Administration fees;
- Managed care: management services;
- Brokers service fees.; and
- Interest on savings plan liability.

The remaining non-healthcare costs are apportioned based on the number of members per option divisible by total membership on the Scheme for the financial period.

- Other administrative expenditure, with exception of BonCap option where administrative expenditure is allocated at a fixed rate of R17.82 per member per month;
- Net impairment losses;
- Investment income;
- Sundry income; and
- Asset management fees.

For management purposes the Scheme is organised into the following six benefit options: Standard, BonSave,

Primary, BonCap, BonComp and BonEssential. The features of the benefit options are disclosed in the Report of the Board of Trustees.

3. Surplus/ (deficit) per benefit option

3.1. Surplus/ (deficit) per benefit option (2010)

Rand '000	Standard Option	BonSave Option	Primary Option	BonCap Option	BonComp Option	BonEssential Option	Scheme Total
Net contribution income	5,051,118	360,812	1,043,824	168,706	166,811	5,848	6,797,119
Relevant healthcare expenditure	(4,218,521)	(295,997)	(842,977)	(207,337)	(191,972)	(4,075)	(5,760,879)
Net claims incurred	(4,099,351)	(288,295)	(819,462)	(211,831)	(190,479)	(4,087)	(5,613,505)
Claims incurred	(4,110,449)	(289,704)	(822,966)	(213,470)	(190,744)	(4,108)	(5,631,441)
Third party recoveries	11,098	1,409	3,504	1,639	265	21	17,936
Net (expense)/income on risk transfer arrangements	(119,170)	(7,702)	(23,515)	4,494	(1,493)	12	(147,374)
Risk transfer arrangement fees / premiums paid	(502,968)	(35,500)	(79,148)	(208,909)	(13,863)	(415)	(840,803)
Recoveries from risk transfer arrangements	383,798	27,798	55,633	213,403	12,370	427	693,429
Gross healthcare result	832,597	64,815	200,847	(38,631)	(25,161)	1,773	1,036,240
Managed care: management services	(134,148)	(17,023)	(42,354)	(1,877)	(3,189)	(251)	(198,842)
Broker service fees	(102,965)	(11,399)	(29,069)	(4,472)	(2,627)	(114)	(150,646)
Administrative expenditure	(392,158)	(49,776)	(123,821)	(20,204)	(9,352)	(735)	(596,046)
Net impairment losses on insurance and trade receivables	(3,748)	(476)	(1,183)	553	(89)	(7)	(6,056)
Net healthcare result	199,578	(13,859)	4,420	(65,737)	(40,418)	666	84,650
Other income	135,390	17,031	42,365	19,817	3,199	252	218,054
Investment income	131,730	16,566	41,209	19,277	3,112	245	212,139

3.1. Surplus/ (deficit) per benefit option (2010) (continued)

Rand '000	Standard Option	BonSave Option	Primary Option	BonCap Option	BonComp Option	BonEssential Option	Scheme Total
Sundry income	3,660	465	1,156	540	87	7	5,915
Other expenditure	(15,151)	(3,283)	(4,623)	(2,221)	(349)	(38)	(25,665)
Interest on savings plan liability	-	(1,364)	-	-	-	-	(1,364)
Asset management fees	(4,928)	625	(1,556)	(728)	(117)	(9)	(7,963)
Dorbyl restructuring expenditure	(692)	-	-	-	-	-	(692)
Impairment of investment in subsidiary	(9,531)	(1,294)	(3,067)	(1,493)	(232)	(29)	(15,646)
Net surplus/(deficit) for the year	319,817	(111)	42,162	(48,141)	(37,568)	880	277,039
Number of members (n)	163,486	2,193	52,601	25,608	3,972	499	268,359

3.2. Surplus/ (deficit) per benefit option (2009)

Rand '000	Standard Option	BonSave Option	Primary Option	BonCap Option	BonComp Option	Scheme Total
Net contribution income	4,707,838	225,395	898,902	125,132	129,328	6,086,595
Relevant healthcare expenditure	(4,350,010)	(196,481)	(813,905)	(122,644)	(165,989)	(5,649,029)
Net claims incurred	(4,265,784)	(192,085)	(798,099)	(142,465)	(163,375)	(5,561,808)
Claims incurred	(4,277,306)	(193,152)	(801,437)	(143,911)	(163,622)	(5,579,428)
Third party recoveries	11,522	1,067	3,338	1,446	247	17,620
Net (expense)/income on risk transfer arrangements	(84,226)	(4,396)	(15,806)	19,821	(2,614)	(87,221)
Risk transfer arrangement fees /premiums paid	(487,261)	(24,267)	(84,302)	(123,942)	(12,543)	(732,315)
Recoveries from risk transfer arrangements	403,035	19,871	68,496	143,763	9,929	645,094
Gross healthcare result	357,828	28,914	84,997	2,488	(36,661)	437,566
Managed care: management services	(129,971)	(12,053)	(37,676)	(1,499)	(2,791)	(183,990)
Broker service fees	(94,881)	(7,807)	(25,074)	(3,607)	(2,354)	(133,723)
Administrative expenditure	(362,422)	(37,671)	(111,776)	(50,418)	(7,999)	(570,286)
Net impairment losses on insurance and trade receivables	(61)	(6)	(19)	(8)	(1)	(95)
Net healthcare result	(229,507)	(28,623)	(89,548)	(53,044)	(49,806)	(450,528)
Other income	140,370	14,591	43,292	19,528	3,098	220,879
Investment income	132,667	13,790	40,916	18,456	2,928	208,757
Sundry income	7,703	801	2,376	1,072	170	12,122
Other expenditure	(6,344)	(1,425)	(1,955)	(882)	(141)	(10,747)
Interest on savings plan liability	-	(765)	-	-	-	(765)
Asset management fees	(4,243)	(441)	(1,308)	(590)	(94)	(6,676)
Net impairment losses on other receivables	(576)	(60)	(177)	(80)	(13)	(906)
Impairment of investment in subsidiaries	(1,525)	(159)	(470)	(212)	(34)	(2,400)
Net deficit for the year	(95,481)	(15,457)	(48,211)	(34,398)	(46,849)	(240,396)
Number of members (n)	177,654	18,466	54,791	24,714	3,921	279,546

4. Investment Property

Rand '000	Notes	Group		Scheme	
		2010	2009	2010	2009
Balance at the beginning of the year		79,510	4,346	36,640	67,504
Disposals		-	(35,910)	-	(35,910)
Additions		409	-	-	-
Transfer from property, plant and equipment			43,018		
Transfer from investment in subsidiaries		-	-	-	6,240
Change in fair value on investment properties		(13,204)	(1,944)	1,200	(1,194)
Balance at the end of the year		66,715	79,510	37,840	36,640
Comprising:					
Sub 2 Kuleka Empangeni		5,590	5,590	5,590	5,590
ERF 395 Polokwane		11,800	11,800	11,800	11,800
ERF 88 Bryanston		13,960	12,670	13,960	12,670
Unit 27 Glenamy, Empangeni		360	340	360	340
ERF 159 Clansthal		5,000	9,200	-	-
ERF 147 Clansthal		30,005	39,910	6,130	6,240
		66,715	79,510	37,840	36,640
Direct operating expenses incurred in the generation of rental income applicable to investment properties		1,392	2,357	1,191	2,197

Investment properties comprise both commercial and residential properties that are leased to third parties. The properties are leased for various periods. Subsequent renewals are negotiated with the lessee. No contingent rents are charged. ERF147/159 Clansthal and ERF88 Bryanston are open stands which are not leased, therefore they do not generate any rental income.

The estimated open market values for Sub 2 Kuleka Empangeni, ERF 395 Polokwane, ERF88 Bryanston and Unit 27 Glenamy were determined by the independent property valuers South Africa Property Investment Group, trading as SAPIG Prop Dev, using a comparable sales approach. Various market information was used to determine the fair value of ERF147 and ERF159 Clansthal.

5. Available for sale investment

Rand '000	Group		Scheme	
	2010	2009	2010	2009
Fair value at the beginning of the year	1,228,277	983,619	1,228,277	983,619
Additions/Re-investments	138,630	135,177	138,630	135,177
Proceeds on disposal of available-for-sale investments	(49,199)	(43,500)	(49,199)	(43,500)
Unrealised fair value gains on available-for-sale investments	68,001	152,981	68,001	152,981
Fair value at the end of the year	1,385,709	1,228,277	1,385,709	1,228,277
Non-current	1,079,651	1,126,681	1,079,651	1,126,681
Current	306,058	101,596	306,058	101,596
	1,385,709	1,228,277	1,385,709	1,228,277
Comprising :				
Listed equities	506,550	690,433	506,550	690,433
Listed property equities	28,213	43,485	28,213	43,485
Unit trusts	405	70,922	405	70,922
Bonds	400,195	371,964	400,195	371,964
Money market instruments	430,046	30,673	430,046	30,673
Unlisted equities	20,300	20,800	20,300	20,800
	1,385,709	1,228,277	1,385,709	1,228,277

The listed equities, bonds and money-market instruments comprise quoted investments in local companies. The listed property equities and unit trusts comprise quoted investments in local companies.

The unlisted equities comprise investments held in Louis Pasteur Hospital Holdings (Pty) Limited. The Scheme used an Income

Approach model (a discounted cash flow valuation technique) to value the investment in Louis Pasteur Hospital Holdings (Pty) Limited.

A register of investments is available for inspection at the registered office of the Scheme.

6. Outstanding Claims Provision

Rand '000	Group		Scheme	
	2010	2009	2010	2009
Covered by risk transfer arrangements	35,151	33,171	35,151	33,171
Not covered by risk transfer arrangements	197,521	223,454	197,521	223,454
Outstanding claims provision - incurred but not yet reported (IBNR)	232,672	256,625	232,672	256,625

Rand '000	Group		Scheme	
	Covered by risk transfer arrangements	Not covered by risk transfer arrangements	Covered by risk transfer arrangements	Not covered by risk transfer arrangements
2010				
Analysis of movements in outstanding claims				
Balance at 1 January	33,171	223,454	33,171	223,454
Payments in respect of prior year claims (Refer to note 8)	(33,171)	(224,491)	(33,171)	(224,491)
Under provision in prior year	-	(1,037)	-	(1,037)
Adjustment for current year (Refer to note 15)	35,151	198,558	35,151	198,558
Balance at 31 December	35,151	197,521	35,151	197,521
Net exposure in respect of outstanding claims				
Gross outstanding claims	-	197,521	-	197,521
Estimated risk transfer arrangements recoveries	35,151	-	35,151	-
Net outstanding claims	35,151	197,521	35,151	197,521
2009				
Analysis of movements in claims				
Balance at 1 January	17,260	201,681	17,260	201,681

6. Outstanding Claims Provision (continued)

Rand '000	Group		Scheme	
	Covered by risk transfer arrangements	Not covered by risk transfer arrangements	Covered by risk transfer arrangements	Not covered by risk transfer arrangements
Payments in respect of prior year claims)	(17,260)	(203,996)	(17,260)	(203,996)
Under provision in prior year	-	(2,315)	-	(2,315)
Adjustment for current year	33,171	225,769	33,171	225,769
Balance at 31 December	33,171	223,454	33,171	223,454
Net exposure in respect of outstanding claims				
Gross outstanding claims	-	223,454	-	223,454
Estimated risk transfer arrangements recoveries	33,171	-	33,171	-
Net outstanding claims	33,171	223,454	33,171	223,454

Data, methodology and assumptions

i) Data

The primary source of data used in this exercise was the Medscheme Data Warehouse. This contained the necessary contributions, claims and other data of the Scheme. The data used included all claim payments and membership movements up to the end of March 2011.

Data was compared to the Scheme's management accounts and found to be consistent after adjusting for manually paid claims.

ii) 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 regularly (at least annually).

The general methodology involves increasing the claims paid in respect of treatment dates occurring in 2010 so as to estimate the total claim amounts expected for 2010 treatments. The difference between the total expected claims and the paid claims is the outstanding claims provision.

6. Outstanding Claims Provision (continued)

The provisions are based on information currently available; however, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the claims is difficult to estimate. The provision estimation difficulties also differ by category of claims (i.e. in-hospital, chronic and above threshold benefits) due to differences in the underlying medical insurance contract, claim complexity, the volume of claims, the individual severity of claims, determining the occurrence date of a claim and reporting lags.

Run-off factors are most reliable as a predictive tool where outstanding claims are relatively small and the payment pattern is stable over time. Actuarial run-off triangle techniques are applied to estimate the total expected claims. In particular, run-off factors (development factors) are used to calculate the remaining outstanding claims with respect to a particular treatment month, as it takes several months for all claims to be paid, due to delays in receiving or processing claims. Members must submit all claims for payment within four months of seeking medical treatment. However, some claims do take significantly longer than four months to settle. One would expect the most recent month to have a significant proportion of claims still to be paid. This proportion would decrease the further

back one looks, with all claims assumed to have been fully paid about nine months after treatment. These run-off factors are calculated by considering the Scheme's recent experience on the pattern of when claims occur and when they are paid. It is assumed that payments will emerge in a similar way in each treatment month. In determining run-off factors, claims are categorised into groups for which one can expect a homogenous run-off pattern to emerge.

The above method uses historical claims development information and assumes that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

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

6. Outstanding Claims Provision (continued)

The calculations are based on treatment dates (service dates) rather than payment dates. Treatment dates are the dates on which treatment of the member actually occurs, whilst payment date refers to the date on which the health practitioner was actually paid.

iii) Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the expected run-off factors for the 2010 and 2009 benefit years.

Changes in assumptions and sensitivities to changes in key variables

The table below outlines the sensitivity of the outstanding claims provision to reasonable possible 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 and reasonable 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 Scheme's estimation process. Information from the managed healthcare provider, Medscheme Health Risk Solutions, on pre-authorised but unpaid hospital accounts was used as an independent source of information to assess the reasonability of the projected hospital claims and to modify the estimate where necessary. Hospital claims are the largest claims category by value and are also one of the slowest categories of claims to be paid. Thus, an independent estimate of the expected hospital cost is particularly valuable in estimating the total expected claims costs for the Scheme.

The Scheme 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 on certain variables and assumptions which could differ when claims arise.

The change in the outstanding claims provision also represents the absolute change in net surplus/(deficit) for the year. It should be noted that increases in

6. Outstanding Claims Provision (continued)

provisions will result in decreases in surplus and vice versa. These reasonable possible changes in key assumptions do not result in any changes directly in reserves.

Impact on surplus reported caused by reasonable possible changes in key variables

Rand '000	Total expected claims	Outstanding claims provision [#]	Change in outstanding claims provision
2010			
As at 31 December 2010	4,928.3	197.5	-
Run-off factors 10% faster than assumed	4,922.4	196.0	(1.5)
Run-off factors 10% slower than assumed	4,925.4	199.9	1.6

Not covered by risk transfer arrangements

Rand '000	Total expected claims (millions)	Outstanding claims provision [#] (millions)	Change in outstanding claims provision (millions)
2009			
As at 31 December 2009	5,015.5	223.5	-
Run-off factors 10% faster than assumed	5,013.7	221.6	(1.9)
Run-off factors 10% slower than assumed	5,017.4	225.4	1.9

Not covered by risk transfer arrangements

7. Net Contribution Income

Rand '000	Group		Scheme	
	2010	2009	2010	2009
Gross contributions	6,907,418	6,193,402	6,907,418	6,193,402
Savings plan contributions	(110,299)	(106,807)	(110,299)	(106,807)
	6,797,119	6,086,595	6,797,119	6,086,595

8. Relevant Healthcare Expenditure

Rand '000	Group		Scheme	
	2010	2009	2010	2009
Claims incurred (excluding claims incurred in respect of risk transfer arrangements)				
Current year claims	5,070,790	5,006,110	5,070,790	5,006,110
Movement in outstanding claims provision	(25,933)	21,773	(25,933)	21,773
Payments in respect of prior year claims	(224,491)	(203,996)	(224,491)	(203,996)
Adjustment for current year	198,558	225,769	198,558	225,769
Claims paid on savings plan accounts	(106,845)	(93,549)	(106,845)	(93,549)
Sub-total	4,938,012	4,934,334	4,938,012	4,934,334
Claims incurred in respect of risk transfer arrangements				
Current year claims in respect of related risk transfer arrangements	658,278	611,923	658,278	611,923
Movement in outstanding claims provision	35,151	33,171	35,151	33,171
	693,429	645,094	693,429	645,094
Claims incurred	5,631,441	5,579,428	5,631,441	5,579,428
Third party claim recoveries	(17,936)	(17,620)	(17,936)	(17,620)
Net claims incurred	5,613,505	5,561,808	5,613,505	5,561,808
Net expense on risk transfer arrangements				
Risk transfer agreement fees/premiums paid	840,803	732,315	840,803	732,315
CDE Holdings (Pty) Ltd	93,149	81,956	93,149	81,956
Dental Information Systems (Pty) Limited	343,565	322,785	343,565	322,785
Netcare 911 (Pty) Limited	38,633	36,340	38,633	36,340
Preferred Provider Negotiators (Pty) Limited	159,578	169,831	159,578	169,831
Primecure Health (Pty) Limited	205,878	121,403	205,878	121,403
Recoveries from risk transfer arrangements	(693,429)	(645,094)	(693,429)	(645,094)
Net expense on risk transfer arrangements	147,374	87,221	147,374	87,221
Relevant healthcare expenditure	5,760,879	5,649,029	5,760,879	5,649,029

8. Relevant Healthcare Expenditure (continued)

Risk transfer arrangements

The net income/(expense) of the risk transfer arrangements for the current financial year per third party service provider is as follows:

Rand '000	Group		Scheme	
	2010	2009	2010	2009
CDE Holdings (Pty) Ltd	2,817	4,803	2,817	4,803
Dental Information Systems (Pty) Limited	94,714	83,188	94,714	83,188
Netcare 911 (Pty) Limited	4,950	8,989	4,950	8,989
Preferred Provider Negotiators (Pty) Limited	50,128	11,374	50,128	11,374
Primecure Health (Pty) Limited	(5,235)	(21,133)	(5,235)	(21,133)
Net expense on risk transfer arrangements	147,374	87,221	147,374	87,221

The risk transfer arrangements comprise the provision of medical services that are outsourced to third parties by the Scheme. A risk transfer arrangement is defined by IFRS 4 as an insurance contract issued by one insurer (the reinsurer) to compensate another insurer (the cedant) for losses on one or more contracts issued by the cedant. The cost the Scheme would have incurred to deliver the specified benefits had it not entered into the capitation agreement, firstly represents the Scheme's exposure to its members, as the capitation agreement cannot absolve the Scheme from its responsibility towards its members. This 'cost' the Scheme would have incurred (had it not

entered into the capitation agreement) to deliver the specified benefits secondly represents the Scheme's recovery in kind from the managed healthcare provider. This recovery in kind, of cost incurred, is disclosed as recoveries received from risk transfer arrangements. The risk transfer arrangements are entered into in respect of the provision of medical services that are outsourced to third parties by the Scheme. These services comprise:

- Benefits relating to the treatment of diabetes, both Insulin and Non-Insulin by CDE Holdings (Pty) Limited.
- Dental benefits provided by Dental Information Systems (Pty) Limited;

8. Relevant Healthcare Expenditure (continued)

- Ambulance services and international cover provided by Netcare 911 (Pty) Limited;
- Optical benefit management which is provided by Preferred Provider Negotiators (Pty) Limited;
- All medical benefits on the BonCap benefit option provided by Primecure Health (Pty) Limited; and Refer to note 12 for nature, terms and conditions of the risk transfer arrangements.

9. Administrative Expenditure

Rand '000	Group		Scheme	
	2010	2009	2010	2009
Trustees' remuneration and consideration	2 852	4 479	2 586	3 978
Principal Officer's fees	1 222	2 619	1 222	2 619
Principal Officer's expenses	6	263	6	263
Staff remuneration	19 455	21 624	2 609	3 123
Salaries and bonuses	18 123	20 340	2 197	2 822
Retirement benefits	96	862	153	118
Medical benefits and other staff costs	436	422	259	183
Administrator's fees	419 861	388 176	419 861	388 176
Audit fees - External	3 574	2 356	2 577	1 444
Current year	2 322	1 566	1 325	654
Prior year under provision	1 252	790	1 252	790
Audit fees - Internal	2 606	1 391	2 606	1 391
Current year	1 505	1 293	1 505	1 293
Prior year under provision	1 101	98	1 101	98
Bank charges	1 671	1 552	1 603	1 533
Board of Healthcare Funders and IFH subscription fees	2 323	2 018	2 323	2 018
Consulting fees	1 548	1 456	1 548	1 456
Council for Medical Schemes levies	4 835	3 813	4 835	3 813
Depreciation	1 533	1 231	56	71
Fidelity and professional indemnity insurance premium	171	73	171	73

9. Administrative Expenditure (continued)

Rand '000	Group		Scheme	
	2010	2009	2010	2009
Investigation fees	10 825	13 394	10 825	13 394
Injured on duty (IOD) administration fees	2 355	2 415	2 355	2 415
Legal fees	8 421	5 363	7 297	5 140
Marketing, advertising and promotions *	57 185	64 893	94 071	103 244
Motor vehicle accident (MVA) administration fees	6 376	6 635	6 376	6 635
Operating leases	4 387	4 765	2 049	2 443
Postage	8 348	2 200	7 918	1 979
Printing and stationery	14 695	9 568	13 344	8 873
Professional services	8 363	7 630	8 068	6 597
Travel, accommodation and conferences	2 563	2 317	183	351
Input VAT adjustment - disallowed credits	-	10 280	-	6 874
Interest on VAT	-	867	-	-
Interest expense	261	-	-	-
Other expenses	9 421	9 970	1 557	2 383
	594 857	571 348	596 046	570 286

Scheme is eliminated on consolidation of the Group's results.

10. Investment Income

Rand '000	Group		Scheme	
	2010	2009	2010	2009
Income on available-for-sale investments	150,395	197,886	150,395	197,886
Finance income				
- Call accounts	135,149	169,244	135,149	169,244
- Money market instruments	3,863	4,309	3,863	4,309
Dividend income	11,383	24,333	11,383	24,333
Rentals received	2,364	2,942	2,347	2,874
Contractual rental	2,559	2,971	2,542	2,903
Straight-lining of lease accrual	(195)	(29)	(195)	(29)
Finance income from cash and cash equivalents	2,021	4,157	1,899	2,641
Sub-total	154,780	204,985	154,642	203,401
Realised gains	56,298	6,550	56,298	6,550
Realised gains on listed available-for-sale investments	85,063	41,379	85,063	41,379
Realised losses on listed available-for-sale investments	(28,765)	(59,829)	(28,765)	(59,829)
Realised gain on unlisted investments	-	25,000	-	25,000
Change in fair value of investment properties	(13,204)	(1,944)	1,200	(1,194)
Total	197,874	209,591	212,139	208,757

11. Trustees remuneration and consideration

Rand '000	Remuneration: Fees for holding office	Accommodation, travel and meals	Conference fees	Training	Total consideration
2010					
BP Mpungose	281	244	22	-	547
TD Shangase	172	187	22	-	381
MS Mncube	241	229	22	-	492
MP Zulu	189	173	22	-	384
NM Seobi	211	177	5	-	393
L Koch	144	17	-	-	161
SM Nkosi	40	34	-	-	74
WF van Heerden	144	10	-	-	154
Scheme	1,422	1,071	93	-	2,586
BP Mpungose*	46	1	-	-	47
NM Seobi*	97	14	-	-	111
WF van Heerden*	97	1	-	-	98
SM Nkosi	2	-	-	-	2
MS Mncube	3	1	-	-	4
MP Zulu	3	1	-	-	4
Group	1,670	1,089	93	-	2,852

* Scheme Trustees who earned fees as directors of Bonitas Marketing (Pty) Limited and Pegma Thirty Six Investments (Pty) Limited

11. Trustees remuneration and consideration (continued)

Rand '000	Remuneration: Fees for holding office	Accommodation, travel and meals	Conference fees	Training	Total consideration
2009					
BP Mpungose	247	223	5	1	476
TD Shangase	385	260	-	-	645
MS Mncube	303	219	5	2	529
MJ Mokoena	220	199	5	2	426
MP Zulu	273	181	5	2	461
NM Seobi	239	223	5	1	468
NE Themba	195	187	-	-	382
SM Nkosi	203	177	5	-	385
WF van Heerden	161	45	-	-	206
Scheme	2,226	1,714	30	8	3,978
BP Mpungose*	260	106	-	-	366
NM Seobi*	126	3	-	-	129
WF van Heerden*	-	6	-	-	6
Group	2,612	1,829	30	8	4,479

* Scheme Trustees who earned fees as directors of Bonitas Marketing (Pty) Limited and Pegma Thirty Six Investments (Pty) Limited

12. Insurance risk management

12.1 Risk management objectives, policies and strategies to mitigate insurance risk

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

The Scheme 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. Certain risks are mitigated by entering into risk transfer arrangements.

The Scheme 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 and scenario analyses. 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 is 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 using established statistical techniques.

The Scheme's strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, 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 expected number of members per option and their expected demographic profile.

All the contracts are annual in nature and the Scheme has the right to change the terms and conditions of the contracts at renewal. Management information including contribution income, claims ratios, target market and demographic split profile per option is reviewed periodically. There is also an underwriting review programme that reviews a sample of contracts periodically to ensure adherence to the Scheme's objectives.

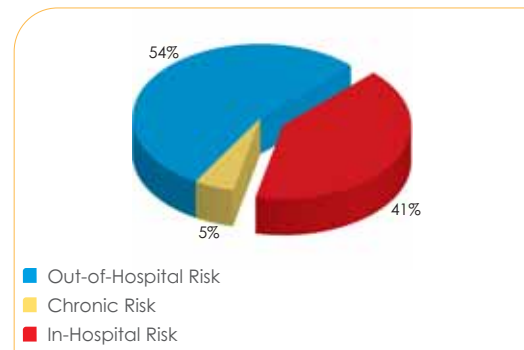
12.2 Concentrations of insurance risk - no risk transfer

The following charts summarises the concentrations of insurance risk in relation to the type of risk covered and/or benefits provided:

Concentration of insurance risk 2010



Concentration of insurance risk 2009



12.3 Risk transfer Arrangement

The Scheme entered into capitation agreements directly with CDE, DENIS, Netcare, PPN and Primecure. The capitation agreements involve a transfer of risk and are, in substance, the same as a 100% quota share reinsurance treaty.

These risk transfer arrangements spread the insurance risk and minimise the effect of healthcare losses. The amount of each risk retained depends on the Scheme's

evaluation of the specific risk, subject in certain circumstances, to maximum limits on the basis of characteristics of coverage. According to the terms of the capitation agreements, the suppliers provide certain minimum benefits to all Scheme members, as and when required by the members. The Scheme does, however, remain liable to its members with respect to ceded insurance if any supplier fails to meet the obligations it assumes.

12.3 Risk transfer Arrangement (continued)

When selecting a supplier, the Scheme considers its relative security and ability to deliver the relevant service. Management renegotiates the agreed fees and benefits of the capitation agreements annually.

i) Preferred Provider Negotiators (Pty) Limited

The Scheme appointed PPN to provide optometric services to beneficiaries, utilising its network of participating providers. The objective is to provide a cost-effective means of delivering quality optometric services to members of the Scheme's participating options. PPN processes and pays all claims in respect of optometric services rendered by the participating and non-participating providers.

The Scheme pays PPN a fixed monthly fee of R27.65 (2009: R26.26) per beneficiary for members that belong to the Standard Option and R15.72 (2009: R21.31) per beneficiary in respect of those members that belong to the Primary Option.

The duration of the contract is one year, with the option to renew the contract annually. Fees and benefits have been agreed for the 2011 financial year.

ii) Dental Information Systems (Pty) Limited

The Scheme has appointed DENIS to attend to all

aspects of dental claim administration, including payments of all claims. A dental benefit administered includes dental induced hospitalisation. DENIS receives and captures all claims submitted by members, service providers or by the Administrator. DENIS pays the service providers in respect of all approved claims. DENIS bears the costs incurred in providing a service to the Scheme in respect of the outsourced claims administration.

The Scheme pays DENIS a fixed monthly fee, in advance, of R52.18 (2009: R47.44) for members on the Standard Option, R54.06 (2009: R47.44) for members on the BonSave Option, R29.40 (2009: R28.48) for members on the Primary Option, R94.59 (2009: R91.61) for members on the BonComp Option and R54.06 for members on the BonEssential Option.

Fees and benefits have been agreed with DENIS until 31 December 2011. The contract continues indefinitely after this date with a 90-day notice period.

iii) CDE Holdings (Pty) Limited t/a Centre for Diabetes and Endocrinology

The agreement documents the appointment of CDE as an approved network provider in respect of the treatment of diabetes mellitus by performing and administering the services to the beneficiaries on the

12.3 Risk transfer Arrangement (continued)

Standard and BonComp benefit options. CDE agrees to provide consultation, medication and hospitalisation of beneficiaries of insulin-dependent and non-insulin-dependent diabetes mellitus, at a rate of R1,590 (2009: R1472) and R671 (2009: R621) per patient monthly, respectively.

The duration of the contract is one year, with the option to renew the contract annually. Fees and benefits are in the process of being negotiated for the 2011 financial year.

iv) Netcare 911 (Pty) Limited

The Scheme contracted Netcare for the provision of managed care services. Netcare conducts its business as a pre-hospital risk management, emergency response, assistance and transportation company. Netcare ensures that all telephonic requests for medical assistance received from members are dealt with in accordance with the contract. Netcare maintains and updates its database to continuously reflect the most recently available data and information relating to the provision of services. Netcare verifies that the person requesting the provision of services is a member of the Scheme.

In addition, members below the age of 81 years can obtain an international travel insurance policy for travel outside the borders of the RSA at no additional cost. The maximum period covered per beneficiary per year is 180 days. The cover provided to members includes emergency medical expenses including hospitalisation, out-of-hospital claims, and evacuation and repatriation expenses of members travelling abroad. Netcare undertakes to settle in-hospital emergency medical expenses directly, provide case management in an inpatient setting and provide members with telephonic medical advice and general travel information. It should however be noted that the Scheme will no longer be subscribing to the international insurance cover from 1 January 2011.

The Scheme pays Netcare a standard fee of R10.18 (2009: R9.40) per member per month and Netcare International a standard fee of R2.36 (2009: R2.25) per member per month for these services. The duration of the contract is one year, with the option to renew the contract annually. Fees and benefits have been agreed for the 2011 financial year in principle.

12.3 Risk transfer Arrangement (continued)

v) Primecure Health (Pty) Limited

Primecure is a managed healthcare organisation providing healthcare services for members on the BonCap option. Services covered under this contract includes extensive in-hospital cover as well as out-of-hospital cover such as general practitioners, specialists, dentistry, radiology, optometry, acute and chronic medicines, allied health and HIV services.

The monthly fees paid on the BonCap option are set out in the table below:

2010 Income band	Principal member	Adult dependant	Child dependant
Corporate			
R0 - R4,000	423	387	206
R4,001 - R6,500	507	464	275
R6,501 +	682	624	369
Individual			
R0 - R4,000	729	667	355
R4,001 - R6,500	874	801	474
R6,501 +	1,177	1,076	637
2009			
Corporate and individual			
R0 - R4,000	368	336	179
R4,001 - R6,500	441	404	239
R6,501 +	593	543	321

The duration of the contract is one year, with the option to renew the contract annually. Fees and benefits are in the process of being negotiated for the 2011 financial year but the renewal terms have been agreed on in principle.

13. Contingencies

The Scheme has contingent assets in respect of the Road Accident Fund claim recoveries for members that are or may be involved in a motor vehicle accident. Management is confident that the contingent assets will be recoverable, should they arise.

14. Related Party Transactions

14.1 Transactions With Related Parties

All transactions with related parties are on an arm's length basis under terms that are no less favourable than those arranged with third parties.

i) Parties with significant influence over the scheme

Rand '000	Scheme	
	2010	2009
Medscheme Holdings (Pty) Limited Scheme administrator		
Statement of comprehensive income		
<i>Administration fees paid</i>		
The administration agreement between Medscheme Holdings (Pty) Limited and the Scheme stipulates that Medscheme Holdings (Pty) Limited administers the Scheme in terms of the rules of the Scheme and in accordance with the instructions given by the Board of Trustees of the Scheme.	419,861	388,176
<i>Lease of Polokwane property - rentals received</i>	(146)	(134)
Statement of financial position		
<i>Balances payable to related party</i>		
The balances payable bear no interest, are unsecured and are due within 30 days.	(845)	(275)
<i>Balances receivable from related party</i>		

14. Related Party Transactions (continued)

i) Parties with significant influence over the scheme (continued)

Rand '000	Scheme	
	2010	2009
Statement of comprehensive income		
Health Risk Solutions		
A division of Medscheme Holdings (Pty) Limited		
<i>Managed care fees</i>		
The managed care agreement between Health Risk Solutions and the Scheme stipulates that Health Risk Solutions renders managed healthcare services to the Scheme in terms of the rules of the Scheme and in accordance with the instructions given by the Board of Trustees of the Scheme.	198,842	183,990
Statement of financial position		
<i>Balances payable to related party</i>		
The balances payable bear no interest, are unsecured and are payable upon presentation of an approved invoice.	(3,988)	(3,728)

ii) Subsidiaries

Rand '000	Scheme	
	2010	2009
Bonitas Marketing (Pty) Limited		
Statement of comprehensive income		
<i>Sales and marketing fees</i>	38,631	38,606
Statement of financial position		
<i>Marketing fees payable</i>	(9,881)	10,803

14. Related Party Transactions (continued)

iii) Key management personnel and their close family members

Rand '000	Scheme	
	2010	2009
Key management compensation		
Trustee's remuneration and considerations (Refer to note 10)	2,852	4,479
Principal Officer's fees	1,222	2,619
Salary and bonus paid	330	2,619
Salary paid to the Acting Principal Executive Officer	892	-
Principal Officer's expenses	6	263
Salary and bonus paid to Chief Operations Officer	-	1,436
	4,074	8,534
Contributions and claims		
Statement of comprehensive income		
<i>Contributions received</i>		
This constitutes the contributions paid by the related party as a member of the Scheme, in their individual capacity. All contributions were at the same terms as applicable to third parties.	(399)	(371)
<i>Claims paid</i>		
This constitutes amounts claimed by the related parties, in their individual capacity as members of the Scheme. All claims were paid out in terms of the rules of the Scheme, as applicable to third parties.	206	260

14. Related Party Transactions (continued)

iv) Other related parties

Rand '000	Scheme	
	2010	2009
Louis Pasteur Hospital Holdings (Pty) Limited		
Statement of financial position		
<i>Unlisted equity held by the Scheme in the entity at fair value</i>	20,300	20,800
<i>Creditor's invoices paid during the year</i>	25,928	27,948
<i>Balance payable to related party</i>	(293)	-
The balance payable bears no interest, is unsecured and is due within 30 days.		
Clinix Health Group Holdings (Pty) Limited *		
Statement of financial position		
<i>Creditor's invoices paid during the year</i>	-	72,328
Lesedi Clinic (Pty) Limited *		
Statement of financial position		
<i>Creditor's invoices paid during the year</i>	-	28,252
*At 31 December 2010, these entities were no longer related parties in relation to the Scheme, as the investments had been sold.		

15. Events after statement of financial position date

15.1 Outstanding claims provision

The outstanding claims provision is expected to have a run-off period of four months after the date of the statement of financial position.

15.2 Restructuring of the Group

During March 2010 the Board of Trustees resolved to restructure the Group. At the date of this report neither the full impact of the restructuring activities nor the final manner in which the restructuring will be performed has been determined by management.

It is anticipated that Pegma Thirty Six Investments (Pty) Limited will be wound up. The proceeds will be distributed to the Scheme in the form of a liquidation dividend.

It is anticipated that Bonitas Marketing (Pty) Limited will be integrated into the Scheme as a going concern.

A due diligence has been requested to provide guidance on the most efficient manner of integrating Bonitas Marketing (Pty) Limited into the Scheme.

15.3 Application for curatorship by the Registrar of the Council for Medical Schemes

The Registrar of Medical Schemes applied to Court to place the Scheme under curatorship under Section 56 of the Act in January 2010 following certain concerns raised by an investigator appointed in terms of section 51 of the Medical Schemes Act. On 27 May 2011 the South Gauteng High Court granted the Registrar's application, based on an out of court settlement with the Board of Trustees, for curatorship. The court ruling confirmed that Mr Joseph Maluleke has been appointed as Curator on 27 May 2011 and that the powers of the Board of Trustees and the Principal Officer have been entrusted to him. Subsequent to the ruling the Acting Principal Executive Officer, Mr Gerhard van Emmenis, resumed his duties as the Chief Operations Officer.

16. Other matters for reporting to members

16.1 Claim for recovery of ceded policies

An application was brought against Louis Pasteur Hospital Holdings (Pty) Limited (Louis Pasteur) to recover an amount of R68 million (inclusive of interest). The amount claimed is the value of paid up policies ceded to Louis Pasteur in 1996 as part of the Scheme's

16.1 *Claim for recovery of ceded policies (continued)*

shareholder funding obligations that exceeded the Scheme's liability in terms of an underwriting agreement with Louis Pasteur. The matter was due to be heard in May 2010, but the matter was then postponed. The new allocated Court date will be during the course of May 2011.

16.2 *Legislative environment*

Prescribed Minimum Benefits (PMB)

The interpretation and application of the "pay in full" requirement of Regulation 8(1) to the Act, as it relates to the payment of healthcare providers' accounts for the diagnosis, treatment and care costs of the Prescribed Minimum Benefit conditions (PMB), is a matter of importance in view of the potential impact on the Scheme's long-term financial sustainability, as well as from a governance and management reporting perspective.

In terms of Circular 37 of 2009 issued by the Council for Medical Schemes (CMS) on 15 December 2009, it appeared that according to its interpretation, an industry-wide practice existed whereby medical schemes and administrators failed to comply with the provisions of the Act in respect of the provision and payment of

PMB. In line with the Rules of the Scheme, PMB are paid at scheme tariff and not on the invoice of the healthcare service provider, as required by the CMS. In view of the above, the Trustees of the Scheme along with the administrator and a number of other medical schemes obtained a legal opinion from Advocate Salie Joubert SC, during February 2010, in which it was concluded that the interpretation of Regulation 8(1) of the Act can mean nothing other than payment in terms of the rules of the Scheme and subject to the Scheme's tariffs and not payment of the full invoice price claimed by the service provider. The opinion further indicated that the interpretation as currently applied by the CMS based on two Appeal Board decisions, i.e. that medical schemes should pay the full costs as per the invoice price, is actually ultra vires the powers of a medical scheme as provided in terms of the Act and that to enforce the CMS's interpretation will result in an illegality as the schemes will be forced to pay outside their registered rules. In keeping with the opinion of Senior Counsel, schemes have not budgeted to pay for benefits other than in terms of their respective benefit options.

Following the above mentioned legal opinion and having discussed and reviewed the possible impact on

16.2 Legislative environment (continued)

the medical scheme in consultation with the administrator, the Trustees agreed to support the establishment of a PMB task team by the CMS. The administrator was nominated to represent the medical scheme on the PMB task team. The Trustees thereby confirmed its willingness to collaborate with the CMS during 2010 to establish a practical framework to improve compliance with the provisions of the Act ensuring the delivery of PMB in a sustainable manner, while adhering to its responsibility to act with due care and diligence and ensuring that the financial viability of the Scheme is taken into consideration. The Code of Conduct in respect of PMB benefits completed by the PMB task team was published on 31 July 2010. It appeared that consensus could not be reached on the problems related to the "payment in full" provisions in Regulation 8 of the Act. Circular 56 of 2010 was issued by the CMS on 27 October 2010. The circular stated that in respect of the "payment in full" provisions of Regulation 8 of the Act, on which the Code of Conduct is silent, the CMS will continue to enforce the requirements stipulated in the Regulations and to follow the interpretation given by the Appeal Board to the effect that "payment in full" means as per invoice, and not at scheme tariff. To place this in context, this means that a service provider

charging a member for treatment of a PMB condition would be entitled to charge whatever he wants, and the scheme would be obliged to pay this. As there is no maximum tariff or guideline which informs a service provider how much he can charge for services, there is a potential that the cost of healthcare in this country may begin to spiral upwards, which in turn would lead to schemes possibly having to increase contributions at greater levels.

The Board of Healthcare Funders (BHF) brought an urgent application against the CMS and the Minister of Health on 1 December 2010, for an interim order interdicting the CMS from enforcing its interpretation of Regulation 8(1) of the Act, pending the final adjudication of BHF's application for a declaratory order that payment in full means payment in full to the beneficiary as provided for in the rules of a medical scheme.

On the day of the hearing numerous parties attended Court, representing mainly healthcare service providers, intending to intervene as interested parties. It was agreed to remove the matter from the Court roll and a timeline for filing further court papers in the declaratory order application was agreed as follows:

16.2 Legislative environment (continued)

- BHF was required to supplement its founding papers for the declaratory order by 31 January 2011;
- Opposing parties were required to file papers by 28 February 2011; and
- BHF was required to reply by mid March 2011.

Application for a preferential Court date will be made and is estimated earliest May 2011.

The Trustees continue to monitor the activities surrounding this important matter in order to manage the exposure of risk to the Scheme and its members.

The Scheme is committed to protecting the interests of its beneficiaries and at the same time ensuring that it remains sustainable into the future. The Scheme will therefore await the outcome of the court process before making any further decision regarding the matter.

statements to incorporate the Scheme's obligation with reference to the Dorbyl post retirement benefit originally negotiated between Dorbyl and Vaalmed.

The obligation has subsequently been incorporated into the Scheme's annual financial statements as an insurance payable of R 692,000 with a corresponding amendment to the Statement of Comprehensive Income in the form of a Dorbyl restructuring expense of R 692,000.

17. Restatement of the annual financial statements

17.1 Dorbyl post retirement obligation

Subsequent to the initial signing of the annual financial statements on the 20 April 2011 the Council for Medical Schemes required a restatement of the financial



BonEssential Option:

This is a new option introduced into the Scheme with effect from 1 January 2010. This option provides young executives with a choice of a hospital plan which includes various supplementary as well as limited out-of-hospital and dental benefits.

