Dear Member

The Board of Trustees for Liberty Medical Scheme ("LMS") has considered various factors regarding the sustainability and financial position of LMS, and having regard to the Registrar's views that the scheme is to find an amalgamation partner, hereby notifies Members that it has identified Bonitas Medical Fund ("Bonitas") as an amalgamation partner.

The parties entered into negotiations and have taken the relevant professional advice, and have reached consensus that an amalgamation between the parties is in the interests of the members of both schemes, and pursuant thereto, have caused an exposition document to be drafted. The purpose of the exposition document is to set out the reasons as to why the amalgamation is feasible and desirable.

In terms of the registered Scheme Rules (Rule 30) of LMS, the Scheme may, subject to the provisions of Section 63 of the Medical Schemes Act, amalgamate with, transfer its assets and liabilities to, or take transfer of the assets or liabilities of any other medical scheme or person.

BACKGROUND INFORMATION AND HIGH LEVEL RATIONALE FOR THE AMALGAMATION

Over the past few years, various developments in the healthcare industry have led to a series of consolidations among medical schemes; a trend that has created larger, more sustainable medical aids.

The Boards of LMS and Bonitas commissioned preliminary investigations into a possible amalgamation between the two schemes. The positive outcomes of these initial feasibility studies provided sufficient motivation for both Boards to move forward with a potential amalgamation process.

While negotiations between the Boards have since progressed to an advanced stage, a number of regulatory processes and steps have yet to be satisfied in order for the transaction to be successfully ratified. This includes the important step of consulting with our Members on the transaction, hence this notice.

LMS Members are advised that all LMS option choices for 2016 will remain unaffected and unchanged for the remainder of the year.

Prior to detailing the Member Exposition and Voting Process as explained further below, we wish to equip you with some important facts and potential benefits pertaining to the potential amalgamation.

Firstly, Bonitas is administered by Medscheme and is South Africa's second largest open medical aid. Secondly, Bonitas' financial indicators are above the legislated requirements and industry average and the Scheme has been awarded one of the highest credit ratings in the industry. This rating reconfirms Bonitas' higher than normal claims paying ability.

Thirdly, if the amalgamation is successful, the new Scheme would have a broader national footprint, plus improved economies of scale, allowing for negotiation of better rates with healthcare providers.
All of the aforementioned would translate to direct benefits for Members of the newly amalgamated Scheme. A full fact sheet on Bonitas has been attached for your perusal.

While there is no obligation in the LMS Scheme Rules that Members are required to vote on the proposed amalgamation, the Board of LMS deems the transaction to be of fundamental interest to Members, and as such, have determined that the Members should be given an opportunity to vote as to whether the proposed amalgamation should proceed.

In accordance with the above information, the Board of LMS hereby invites all Members of the Scheme to vote on the proposed transaction.

Having regard to the above information, Members are invited to cast their votes in respect of the proposed amalgamation between LMS and Bonitas as set out in the exposition document (attached hereto), and subject to the terms and conditions set out in this notice.

VOTING PROCESS

Only principal members of LMS who are in good standing may participate in this process. PricewaterhouseCoopers Advisory Services (Pty) Ltd (“PwC”) has been appointed to oversee the balloting process. In determining the validity of any ballot and the voting process in general, and in determining the voting outcome, the decisions made by PwC shall be final and binding. Non-receipt of this notice by any Member shall not invalidate the voting process.

Irrespective of the format of the voting process in which you elect to participate, only Principal Members of LMS in good standing will be entitled to vote.

The voting process will be done by electronic means and also be available to all principal members who have a mobile number or alternatively an email address recorded on the membership database of LMS. If you have neither a mobile number nor an email address, but you still wish to participate in the voting process, you are required to contact PwC on 012 429 0024 or email at BMF_LMS_merger@za.pwc.com and request a non-electronic ballot form. This ballot form will then have to be completed by the Member and sent back to PwC by no later than 09h00 on 20 April 2016.

- Only properly completed Ballot Forms will be considered.
- All information required on the Ballot Form must be completed. Failure to do so may invalidate the Ballot Form.
- Completed Ballot Forms may be physically delivered to any of the PwC offices at the following physical addresses by 09h00 on 20 April 2016:
  - PwC Johannesburg, 2 Eglin Road, Sunninghill, Johannesburg;
  - PwC Pretoria, 32 Ida Street, Menlo Park;
  - PwC Bloemfontein, 61 Second Avenue, Westdene, Bloemfontein;
  - PwC Welkom, Nedbank Building, 2nd Floor, Suite 204, 10 Ryk Street, Welkom;
  - PwC Cape Town, 1 Waterhouse Place, Century City, Cape Town;
  - PwC Paarl, PwC Building, Zomerlust Estate, Berg River Boulevard, Paarl;
  - PwC Robertson, 3 Church Street, Robertson;
  - PwC Stellenbosch, Capital Place, 15-21 Neutron Avenue, Technopark, Stellenbosch;
  - PwC Worcester, Cnr of Mountain Mill and East Lake Road, Worcester;
  - PwC Pietermaritzburg, Block C, 21 Cascades Crescent, Cascades, Pietermaritzburg;
  - PwC Durban, 34 Richefond Circle, Ridgeside Office Park, Umhlanga Ridge, Durban;
  - PwC Richards Bay, Suite 22, 1st Floor, Partridge Place, Lira Link Road, Richards Bay;
  - PwC East London, Acacia House, Palm Square Business Park, Bonza Bay Road, Beacon Bay, East London;
  - PwC Port Elizabeth, PwC Building, Ascot Office Park, 1 Ascot Road, Port Elizabeth;
  - PwC Polokwane, Suite 1, Maneo Building, 73 Biccard Street, Polokwane;
The abovementioned PwC offices will only be open between 08h00 and 16h30, Mondays to Fridays excluding Saturdays, Sundays and public holidays.

Your completed Ballot Form may also be e-mailed to BMF_LMS MERGER@za.pwc.com or faxed to 012 749 8159.

**Electronic Voting**

- Should you elect to vote by electronic means, details of the voting process will be sent to you electronically on your mobile phone or email address, and you will be required to follow the prompts in order to lodge your vote.
- We anticipate the electronic voting to open on 22 March 2016 and remain open until 20 April 2016.
- You may only vote once – either electronically or by ballot. Should you vote more than once, then the vote which reaches PwC first will be deemed to be the valid vote.

The Board of Trustees would like to thank you for your due consideration of this proposal. In terms of their fiduciary responsibilities, the Trustees, elected by the membership, have carefully considered the transaction and are of the view that this would be in the best interests of the members. We therefore recommend that you vote in favour of the amalgamation.

Yours Sincerely

LIBERTY MEDICAL SCHEME
With **34 years** of experience, **Bonitas Medical Fund** offers medical aid plans that are designed to give our members more value for money and meet their healthcare needs.

## OUR APPROACH

<table>
<thead>
<tr>
<th>WHY BONITAS</th>
<th>OUR MEMBERS</th>
<th>OUR FINANCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Committed to making quality healthcare more accessible</td>
<td>We’re financially sound (good solvency ratio and credit rating)</td>
<td><strong>AA-</strong> Global Credit Rating</td>
</tr>
<tr>
<td>Aim to make healthcare more affordable</td>
<td>We’re experienced (since 1982, in the industry longer than most competitors)</td>
<td>26% Solvency ratio</td>
</tr>
<tr>
<td>Traditional, new generation and hybrid plans to meet all needs</td>
<td>We’re reliable (claims payout above industry norm)</td>
<td><strong>R2.9 billion</strong> in reserves</td>
</tr>
<tr>
<td></td>
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## MORE VALUE

<table>
<thead>
<tr>
<th>OUR MEMBERS</th>
<th>OUR FINANCES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>295 439</strong> Main members</td>
<td><strong>AA-</strong> Global Credit Rating</td>
</tr>
<tr>
<td><strong>358 502</strong> Beneficiaries</td>
<td>26% Solvency ratio</td>
</tr>
<tr>
<td><strong>653 941</strong> Total lives covered</td>
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</tr>
<tr>
<td><strong>2.2</strong> Average family size</td>
<td>Low expense ratios</td>
</tr>
<tr>
<td><strong>6%</strong> Pensioner ratio (65+ years)</td>
<td>*Based on draft figures for 2015 financial year</td>
</tr>
<tr>
<td><strong>1.2</strong> Number of dependants per member</td>
<td><strong>32.7 years</strong> Average beneficiary age</td>
</tr>
<tr>
<td><strong>46 years</strong> Average principal member</td>
<td>*Based on draft December 2015 management accounts</td>
</tr>
</tbody>
</table>

## OUR ADMINISTRATION

- Our administrator, Medscheme offers highly-skilled staff and top notch technology to deliver service that consistently exceeds client expectations.
- **96%** overall customer service quality
- **93%** of claims processed within 5 days
- **91%** of claims paid within 5 days
- **91%** query resolution on Facebook page
- **90%** of calls answered within 20 seconds
- **91%** of claims processed within 5 days
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## OUR FINANCES

Our financial indicators are above industry average so we can afford to pay our members claims and provide them with quality healthcare and benefits.

## OUR MEMBERS

Our members know that when things get tough, we’re there to support them and take care of the little details so that they can receive the best of care and focus on getting better.

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Our plans

We offer a range of 9 products that are simple to understand, easy to use and give our members more value for money.

**Standard**
Get peace of mind knowing that your family’s general medical needs are covered with the Standard Option. It offers savings and day-to-day benefits, chronic cover and extensive benefits in-hospital plus benefits for dentistry, GP consultations and optometry.

**Standard Select**
Standard Select gives you excellent benefits at a lower price by requiring you to use a network of hospitals and medical practitioners. It offers savings and day-to-day benefits, chronic cover and extensive benefits in-hospital plus cover for dentistry, GP consultations and optometry.

**Primary**
This simple medical aid plan offers affordable healthcare for you and your loved ones when you need it. It includes unlimited chronic cover for 27 conditions, hospital cover and generous day-to-day benefits, GP benefits and cover for optometry and basic dentistry.

**BonComprehensive**
Our premium product, BonComprehensive, is designed to meet the most arduous healthcare needs. It features quality benefits for young and old alike, including comprehensive cover for chronic conditions, rich savings, unlimited above threshold benefits and extensive hospital cover.

**BonClassic**
This new gene/r.alteration plan offers a wide range of benefits to meet the needs of you and your loved ones. It includes generous savings and chronic cover plus added benefits for blood tests, x-rays, dentistry and optometry.

**BonSave**
Take total control of your benefits with BonSave – the flexible option that lets you decide how to use your savings. Designed to offer you cover when you need it most, BonSave offers extensive hospital cover and unlimited cover for 27 chronic conditions.

**BonFit**
The perfect fit for the young and healthy, BonFit is designed for those who want basic cover out of hospital and more cover for major medical events. It offers savings to use as you choose, unlimited cover for 27 chronic conditions and robust benefits at network hospitals.

**BonEssential**
A hospital plan with a difference, BonEssential offers top-quality hospital cover, unlimited cover for 27 chronic conditions as well as added benefits for maternity, wellness and preventative care.

**BonCap**
This entry-level option offers access to network providers and hospitals. It features basic day-to-day benefits and hospital cover as well as cover for 27 chronic conditions.

**OUR CONTACT INFORMATION**

Call 0860 002 108
Visit www.bonitas.co.za
Facebook Bonitas-Medical-Fund
Exposition of transaction involving the amalgamation of BONITAS MEDICAL FUND and LIBERTY MEDICAL SCHEME in terms of Section 63 of the Medical Schemes Act, Act No. 131 of 1998

March 2016
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1. Background

1.1. Bonitas Medical Fund ("Bonitas") is the second largest open medical scheme in South Africa with 295,344 principal members as at the end of December 2015. Bonitas has nine benefit options (including one "Efficiency Discount Option"). Bonitas is administered by Medscheme Holdings (Pty) Ltd ("Medscheme").

1.2. Liberty Medical Scheme ("LMS") is a medium sized open scheme with 56,270 principal members as at the end of December 2015. LMS has twelve benefit options (including three "Efficiency Discount Options"). LMS is administered by Vmed Medical Aid Administrators ("Vmed").

2. Reasons for an amalgamation

Bonitas and LMS intend to amalgamate the respective medical schemes with a proposed effective date of 1 August 2016, or any other such later date as may become necessary and agreed upon by the parties, and upon the obtaining of all regulatory consents ("Effective Date"). It is proposed that with effect from Effective Date, Bonitas and LMS will amalgamate to form one medical scheme. The main reasons for Bonitas and LMS proposing an amalgamation are as follows:

2.1. An amalgamation of the two schemes would further enhance Bonitas's position as the second largest open medical scheme.

2.2. Bonitas is a strong brand in the medical scheme market and an amalgamation will ensure that the LMS members will become members of a large, stable and sustainable medical scheme. Liberty on the other hand is a strong brand in the broader financial services market and an amalgamation with LMS is likely to further enhance the Bonitas brand by allowing it exposure to a different market segment than Bonitas' traditional catchment market.

2.3. The medical scheme industry has been struggling to achieve organic membership growth for various reasons, amongst others, the current economic climate. In this environment, along with most other schemes, LMS has also struggled to attract young and healthy members critical for the future sustainability of the scheme. It is therefore important for LMS to amalgamate with a scheme that can ensure future sustainability for its members.

2.4. A larger scheme should be in a position to more efficiently negotiate with various providers, thereby assisting in containing risk and costs. From an investment assets perspective, there is an opportunity for more effective management of asset allocation and diversification, potentially resulting lower fees, higher service levels, and better returns over the long term.

2.5. Economies and efficiencies of scale can be achieved, especially in respect of fixed costs which will assist in relieving pressure on future contribution increases.

2.6. Bonitas has a large GP and Specialist network which will ensure further benefits for LMS members as they will be cushioned from co-payments where they utilise these providers.

2.7. The amalgamated scheme will offer more benefit options which should cater for a better match to members' needs by giving members a more appropriate choice.

2.8. The pooling of benefits with greater numbers of members per benefit option may result in the risk pools being larger, which should translate into more sustainable benefit options.
2.9. The current trend of consolidation of schemes is expected to continue in future and an amalgamation will be in line with this trend. It is generally accepted that in the longer term the medical scheme market will consist of fewer and larger schemes than is currently the case.

2.10. It is also known that the LMS financial model is not sustainable, and as such, the regulator has expressed concern and advised LMS to find a suitable amalgamation partner. Furthermore, LMS also approached independent business advisors to advise it on a sustainable business model, and was advised that it ought to find an amalgamation partner. In so advising, the independent advisors also identified Bonitas as a scheme which could be considered as being an optimal fit.

3. **Amalgamation**

3.1. **Transfer**

3.1.1. It is proposed that with effect from Effective Date Bonitas and LMS will amalgamate to form one medical scheme. The amalgamated scheme will be called Bonitas Medical Fund (“Bonitas”) and continue as a scheme under Bonitas’s current registration.

3.1.2. With effect from Effective Date all members of LMS will become members of Bonitas. For purposes of calculating the period of continuous membership of Bonitas Medical Fund, all LMS members shall be regarded as having been members of Bonitas with effect from the date upon which they joined LMS.

3.1.3. As at Effective Date, Bonitas shall take transfer of all assets belonging to or owned by LMS and shall accept responsibility for all liabilities of LMS, including the liability for medical claims that would have been valid against LMS in terms of its Rules for services rendered to members prior to the transfer of assets and liabilities, as contemplated in section 63(14) of the Medical Schemes Act.

3.1.4. With effect Effective Date, and upon making due application to the Council for Medical Scheme, LMS shall be deregistered as a medical scheme and cease to exist.

3.1.5. The two schemes’ benefit options will continue to operate for the remainder of 2016 and the members of both schemes will continue to remain on their current benefit options for the remainder of 2016. As from 1 January 2017 the benefit options of the two schemes will be appropriately combined based on the sustainability of those benefit option, and taking members’ needs into account.

It is envisaged that the benefit options of the two schemes will be mapped for implementation in 2017 as set out in the table below. In the majority of cases where the LMS benefit options will be merged into the Bonitas benefit options, the LMS members will experience a decrease in contributions. In those instances where the LMS members would experience an increase in contributions for the default mapped benefit options there are alternative Bonitas options that members can elect which will ensure that members do not experience an increase in contributions, e.g. the LMS Complete Standard members could elect the Bonitas Standard Select option instead of the Bonitas Standard option for lower contributions than on LMS Complete Standard.
Exposition of transaction involving the amalgamation of BONITAS MEDICAL FUND and LIBERTY MEDICAL SCHEME in terms of Section 63 of the Medical Schemes Act, Act No. 131 of 1998

<table>
<thead>
<tr>
<th>Bonitas Benefit Option</th>
<th>LMS Benefit Option</th>
<th>Amalgamated Scheme Benefit Option</th>
</tr>
</thead>
<tbody>
<tr>
<td>BonComprehensive</td>
<td>Traditional Ultimate Complete Plus</td>
<td>BonComprehensive</td>
</tr>
<tr>
<td>BonClassic</td>
<td>-</td>
<td>BonClassic</td>
</tr>
<tr>
<td>-</td>
<td>Hospital Plus</td>
<td>Hospital Plus</td>
</tr>
<tr>
<td>Standard</td>
<td>Complete Standard</td>
<td>Standard</td>
</tr>
<tr>
<td>Standard Select</td>
<td>Complete Select</td>
<td>Standard Select</td>
</tr>
<tr>
<td>Primary</td>
<td>Traditional Standard</td>
<td>Primary</td>
</tr>
<tr>
<td>BonSave</td>
<td>Saver Standard</td>
<td>BonSave</td>
</tr>
<tr>
<td>BonFit</td>
<td>Saver Select</td>
<td>BonFit</td>
</tr>
<tr>
<td>-</td>
<td>Hospital Standard</td>
<td>Hospital Standard</td>
</tr>
<tr>
<td>BonEssential</td>
<td>Hospital Select</td>
<td>BonEssential</td>
</tr>
<tr>
<td>BonCap</td>
<td>Traditional Basic</td>
<td>BonCap</td>
</tr>
</tbody>
</table>

The 2017 contributions and benefits will be communicated to members during the last quarter of 2016, subject to the usual process of annual actuarial review and members will be able to elect a benefit options decided upon during the 2017 annual review process.

LMS members will be provided with detailed communication on the revised benefit options and contributions. In addition, a call centre will be available for members in order to assist them with their queries.

Where LMS members do not elect a new benefit option for the 2017 year, members will be defaulted to the options in accordance with the table above.

3.2. Resolutions

The Boards of Trustees of Bonitas in terms of Rule 30 of its Rules and LMS in terms of Rule 30 of its Rules have passed resolutions approving the amalgamation on 27 February 2016 and 27 January 2016 respectively, read with Section 63 of the Medical Schemes Act.

3.3. Consent of members

3.3.1. The members of both Schemes have been approached regarding this transaction.

3.3.2. In the instance of the Bonitas members, the members, through the holding of a special general meeting on 20 April 2016, will be asked to vote in favour of the transaction.

3.3.3. In the instance of the LMS members, there is no obligation on LMS to obtain the consent of the members for the transaction to proceed. However, in the interests of being transparent and for sake of good governance, the Board of Trustees of LMS have resolved to approach members for their consent to approve this transaction. LMS will make arrangements for members to be given an opportunity to vote in respect of this transaction by means of electronic ballot, which shall occur over a period of time to be completed by no later than 20 April 2016.
3.3.4. The services of PwC have been secured by the two Schemes to manage the interaction of the members as set out above.

3.4. Comments and objections

3.4.1. The parties to the exposition will comply with the provisions of section 63 of the Medical Schemes Act, and ensure that the exposition of the proposed amalgamation will be made available for inspection for a period of 21 days as contemplated herein, from the date it is formally filed with the Registrar of Medical Schemes. A notice will be published in national newspapers.

3.4.2. Any representation concerning the proposed transaction by persons whose interests may be affected, must be submitted within 21 days after the expiry of the aforementioned 21 day period in writing to either:

- The Registrar of Medical Schemes at Private Bag X34, Hatfield, 0028.
- The Principal Officer of Bonitas at PO Box 3496, Cramerview, 2060
- The Executive Principal Officer of LMS at Private Bag X3, Century City, 7446.

3.5. Administration

The administration of Bonitas post amalgamation will continue to be performed by the scheme’s current administrator, Medscheme. It is to be noted that in anticipation of the Effective Date, and in keeping with the terms of its administration agreement with VMed, LMS has already given notice of termination to VMed. Contingency arrangements will be made in the event that the transaction timelines are delayed.

3.6. Governance

3.6.1. As at Effective Date, the Board of Trustees of the amalgamated scheme shall comprise of no more than 11 (eleven) trustees as contemplated in the rules of Bonitas, made up as follows:

3.6.1.1. 8 (eight) existing Bonitas trustees;
3.6.1.2. 3 (three) trustees from the current LMS Board subject to the following:

3.6.1.2.1. The current Chairperson of the current Board of Trustees of LMS is one of the trustees who will assume a position on the amalgamated Board and will serve a term of 5 (five) years with effect from the Effective Date.
3.6.1.2.2. Two other trustees will assume positions on the amalgamated Board, but serve for a period of 30 (thirty) months with effect from the Effective Date.

3.6.2. The current Board of Trustees of LMS shall prior to Effective Date determine which of the trustees from amongst them shall serve on the amalgamated scheme’s Board.

3.6.3. Prior to the Effective Date, the current Board of Trustees of Bonitas will implement a fair and equitable mechanism which will result in the current board shedding 2 (two) of the existing trustees to accommodate the LMS trustees.
3.6.4. The tenure of the trustees of the amalgamated board shall be determined in accordance with the term of office that such trustee has held in accordance with the rules of the amalgamating schemes, and upon the expiry thereof, the positions will be filled in accordance with the rules of Bonitas.

4. HR Strategy for the LMS Staff

The amalgamation of the schemes constitutes a transaction as contemplated in Section 197 of the Labour Relations Act (Act 66 of 1995) and as such, unless otherwise dealt with in terms of applicable legislation, all employees of LMS will be transferred to the amalgamated scheme with effect from the Effective Date.

5. Impact of an amalgamation on the schemes

5.1. Membership and demographic profile

The membership and demographic profile of the two Schemes and the combined situation based on membership as at 31 December 2015 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Number of principal members</th>
<th>Average age of principal members</th>
<th>Number of beneficiaries</th>
<th>Average age of beneficiaries</th>
<th>Average family size</th>
<th>Chronic prevalence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonitas</td>
<td>295 344</td>
<td>46.0</td>
<td>653 823</td>
<td>32.5</td>
<td>2.21</td>
<td>17.7%</td>
</tr>
<tr>
<td>LMS</td>
<td>56 270</td>
<td>50.7</td>
<td>112 617</td>
<td>39.9</td>
<td>2.00</td>
<td>18.2%</td>
</tr>
<tr>
<td>Combined</td>
<td>351 614</td>
<td>46.8</td>
<td>766 440</td>
<td>33.6</td>
<td>2.18</td>
<td>17.7%</td>
</tr>
</tbody>
</table>

- The Bonitas membership will form 84% of the membership of the combined scheme and the LMS membership will form 16% of the total membership.

- The average principal member age of the combined scheme will be 0.8 years higher than the current principal member age of Bonitas and 3.9 years younger than the current principal member age of LMS. The average beneficiary age of the combined scheme will be 1.1 years higher than the current beneficiary age of Bonitas and 6.3 years younger than the current beneficiary age of LMS.

- Except for Traditional Basic, the LMS options that would be combined in the event of an amalgamation, all have a higher average age than the Bonitas benefit options.

- Bonitas has a larger average family size than LMS due to having a higher child dependant ratio. The average family size of the combined scheme will be 0.03 lower than that of Bonitas (2.18 vs 2.21).

- Bonitas has a higher chronic prevalence than LMS for the comprehensive options and a lower chronic prevalence for the less comprehensive options.
5.2. Financial impact

Due to the members remaining on the two scheme’s benefit options for the remainder of 2016 with the benefit options being combined on 1 January 2017, the 2016 projected financial results and solvency ratios have been set out under two scenarios, namely:

- The two schemes benefit options continue for the remainder of 2016 with each scheme’s members remaining on their current benefit options. This will represent the expected impact on the scheme in 2016.

- What the impact would be if the benefit options were combined on 1 January 2016. This will represent the expected impact on the scheme in 2017 (in relative terms) when the benefit options are combined as set out in paragraph 3.1.5 above.

**Impact where Bonitas and LMS benefit options continue for remainder of 2016**

<table>
<thead>
<tr>
<th></th>
<th>Bonitas</th>
<th>LMS</th>
<th>Amalgamated scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total (R000)</td>
<td>pmpm</td>
<td>Total (R000)</td>
</tr>
<tr>
<td>Gross contributions</td>
<td>12 528 938</td>
<td>3 471</td>
<td>2 440 144</td>
</tr>
<tr>
<td>Net contributions</td>
<td>11 894 009</td>
<td>3 295</td>
<td>2 192 681</td>
</tr>
<tr>
<td>Benefit expenditure</td>
<td>10 496 585</td>
<td>2 908</td>
<td>1 957 379</td>
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<tr>
<td>Claims</td>
<td>9 643 517</td>
<td>2 672</td>
<td>1 931 765</td>
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<tr>
<td>Capitation fees</td>
<td>853 068</td>
<td>236</td>
<td>25 613</td>
</tr>
<tr>
<td>Expenses</td>
<td>1 517 147</td>
<td>420</td>
<td>279 820</td>
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<tr>
<td>Administration</td>
<td>642 041</td>
<td>178</td>
<td>135 346</td>
</tr>
<tr>
<td>Managed Healthcare</td>
<td>345 841</td>
<td>96</td>
<td>51 090</td>
</tr>
<tr>
<td>Broker fees</td>
<td>227 785</td>
<td>63</td>
<td>44 805</td>
</tr>
<tr>
<td>Other</td>
<td>301 480</td>
<td>84</td>
<td>48 580</td>
</tr>
<tr>
<td>Operating surplus/(deficit)</td>
<td>(119 724)</td>
<td>(33)</td>
<td>(44 518)</td>
</tr>
<tr>
<td>Investment income</td>
<td>280 091</td>
<td>78</td>
<td>34 846</td>
</tr>
<tr>
<td>Other income</td>
<td>4 445</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Surplus/(Deficit) after investment income</td>
<td>164 812</td>
<td>46</td>
<td>(9 672)</td>
</tr>
<tr>
<td>Accumulated funds at start of year</td>
<td>3 020 422</td>
<td>280 631</td>
<td>280 631</td>
</tr>
<tr>
<td>Accumulated funds at end of year</td>
<td>3 185 234</td>
<td>270 958</td>
<td>270 958</td>
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<td>Solvency ratio</td>
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<td>11.1%</td>
<td>23.1%</td>
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<tr>
<td>Budgeted 2016 members</td>
<td>300 766</td>
<td>56 834</td>
<td>357 600</td>
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- The combined scheme’s solvency ratio would be 23.1% based on the budgeted 2016 figures. The combined scheme’s solvency ratio would be 2.3 percentage points lower than that of Bonitas and 12.0 percentage points higher than that of LMS.
Exposition of transaction involving the amalgamation of BONITAS MEDICAL FUND and LIBERTY MEDICAL SCHEME in terms of Section 63 of the Medical Schemes Act, Act No. 131 of 1998

- The combined scheme’s solvency ratio will be slightly below the current regulated minimum solvency ratio of 25%. The Council for Medical Schemes has, however, recently published a circular for stakeholder input on a more appropriate solvency framework than the current 25% that applies to all schemes irrespective of their size and the various risks faced by the schemes. It is envisaged that under a potential new and more scientific solvency framework that the required solvency ratio for Bonitas will be lower than 25%, especially taking in to account Bonitas’s size.

Impact assuming the two schemes benefit options had been combined on 1 January 2016

<table>
<thead>
<tr>
<th>Bonitas</th>
<th>LMS</th>
<th>Amalgamated scheme</th>
</tr>
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<tr>
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<td>3 185 234</td>
<td></td>
</tr>
<tr>
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<td></td>
</tr>
<tr>
<td>Budgeted 2016 members</td>
<td>300 766</td>
<td></td>
</tr>
</tbody>
</table>

- The combined scheme’s solvency ratio would be 22.7% (assuming that the benefit options would be combined on 1 January 2016 for illustrative purposes). It is important to note that this does not take into account savings that could be achieved as a result of Bonitas having more favourable tariff arrangements with providers, future economies of scale that will be achieved as well as savings from enhanced managed care interventions.
Upon amalgamation, the combined scheme’s solvency ratio will be slightly below the current regulated minimum solvency ratio of 25%. The Council for Medical Schemes has, however, recently published a circular for stakeholder input on a more appropriate solvency framework than the current 25% that applies to all schemes irrespective of their size and the various risks faced by the schemes. Under a Risk Based Capital framework, Bonitas would require a solvency ratio of below 20% and the projected solvency ratio of 22.7% is therefore above this requirement.

The Bonitas surplus is expected to reduce by 0.6% of risk contributions from 1.4% to 0.8% as a result of an amalgamation and combining the benefit options. This reduction would be the initial short-term impact of an amalgamation. This reduction is, however, expected to be offset by the lower tariffs that will apply to the LMS members post the merger and the economies of scale achieved with the amalgamation over the longer term.

The table below shows the projected position of the amalgamated scheme over the next three years assuming the same membership as currently. Taking into account the above factors the Scheme is expected to return to a solvency ratio of 25.5% by the end of 2020.

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
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<td>357 600</td>
<td>357 600</td>
<td>357 600</td>
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<tr>
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<td>18 403 877</td>
<td>20 373 977</td>
<td>22 555 576</td>
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<td>Net contributions</td>
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<td>17 425 544</td>
<td>19 287 318</td>
<td>21 348 549</td>
</tr>
<tr>
<td>Benefit expenditure</td>
<td>13 888 188</td>
<td>15 254 380</td>
<td>16 755 718</td>
<td>18 405 633</td>
</tr>
<tr>
<td>Claims</td>
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<td>14 140 390</td>
<td>15 558 179</td>
<td>17 118 279</td>
</tr>
<tr>
<td>Capitation fees</td>
<td>1 036 269</td>
<td>1 113 989</td>
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<td>1 287 354</td>
</tr>
<tr>
<td>Expenses</td>
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<td>2 019 088</td>
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</tr>
<tr>
<td>Administration</td>
<td>811 752</td>
<td>856 398</td>
<td>903 500</td>
<td>953 193</td>
</tr>
<tr>
<td>Managed Healthcare</td>
<td>432 533</td>
<td>456 323</td>
<td>481 420</td>
<td>507 899</td>
</tr>
<tr>
<td>Broker fees</td>
<td>303 773</td>
<td>335 959</td>
<td>371 563</td>
<td>410 949</td>
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<tr>
<td>Other</td>
<td>352 770</td>
<td>370 408</td>
<td>388 929</td>
<td>408 375</td>
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<tr>
<td>Operating surplus/(deficit)</td>
<td>(45 133)</td>
<td>152 076</td>
<td>386 187</td>
<td>662 501</td>
</tr>
<tr>
<td>Investment income</td>
<td>255 978</td>
<td>271 791</td>
<td>303 581</td>
<td>355 314</td>
</tr>
<tr>
<td>Other income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus/(Deficit) after investment income</td>
<td>210 844</td>
<td>423 867</td>
<td>689 769</td>
<td>1 017 814</td>
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<tr>
<td>Accumulated funds at start of year</td>
<td>3 413 037</td>
<td>3 623 881</td>
<td>4 047 748</td>
<td>4 737 517</td>
</tr>
<tr>
<td>Accumulated funds at end of year</td>
<td>3 623 881</td>
<td>4 047 748</td>
<td>4 737 517</td>
<td>5 755 331</td>
</tr>
<tr>
<td>Solvency ratio</td>
<td>21.8%</td>
<td>22.0%</td>
<td>23.3%</td>
<td>25.5%</td>
</tr>
</tbody>
</table>
6. Advantages and disadvantages of an amalgamation

The general advantages and disadvantages of an amalgamation for the two schemes are as follows:

Advantages

- An amalgamation of the two schemes would result in a scheme that would be a more dominant force in the South African medical scheme market. The amalgamated scheme will further enhance Bonitas’s position as the second largest open medical scheme in South Africa. The gap between the largest medical scheme, namely the Discovery Health Medical Scheme, and Bonitas is currently quite large. A larger second player will have the effect of subduing the dominant position of the largest scheme which in turn should allow for greater competition in the industry.

- A larger scheme should be in a position to more efficiently negotiate with various providers such as the hospital groups, pathologists, radiologists and other providers and potentially have a larger influence in future shifts in the medical scheme industry, such as the implementation of the National Health Insurance (NHI).

- A larger risk pool will be expected to result in a more stable and hence predictable claims experience. This should result in more stable contribution increases from year to year.

- Economies and efficiencies of scale will be achieved, especially in respect of fixed costs. The fixed costs are expected to reduce by 7% initially and could further reduce over time.

- Bonitas has a successful track record of amalgamations, with minimal impact to members and managing the financial impact soundly. In addition, Bonitas’ administrator played a key role in ensuring a successful transition of members in the recent Prosano amalgamation. This experience will be valuable in this amalgamation.

Disadvantages

- Disruption caused to members by the combining certain benefit options. The merging of all the benefit options has however been carefully considered to minimise the impact on the majority of members.

- There is a potential of membership losses due to any uncertainty created by the amalgamation. Mechanisms and measures will be put in place to minimise the membership losses during this transaction.

The scheme specific advantages and disadvantages for Bonitas and LMS are as follows:

Bonitas

Advantages

- The scheme will achieve membership growth with a transfer of reserves of R280.6 million.

- The larger membership base and the association with the LMS members and with Liberty being a strong brand in the broader financial services market should result in Bonitas being a more formidable player in the medical scheme market.

- Bonitas will diversify its membership into other markets.
Disadvantages

- The membership growth will result in a deterioration in the scheme’s age and claims cost profile. The scheme’s underwriting position is expected to deteriorate by approximately 0.6% of risk contributions when the two schemes’ benefit options are combined. This deterioration would be the initial short-term impact of an amalgamation. This is, however, expected to be offset by the lower tariffs that will apply to the LMS members post the merger and the economies of scale achieved with the amalgamation over the longer term. Due to the significant size of Bonitas it will able to absorb a Scheme of LMS size, without a significant effect on the underwriting position or the scheme’s age and claims cost profile.

- Although the scheme’s solvency ratio is expected to initially reduce by approximately 2.7 percentage points, the scheme will increase its reserves by R280.6m which would not be the case if the scheme had grown organically. Strategies to build the scheme reserves back to statutory levels will be presented to mitigate against this particular consequence of the proposed transaction.

LMS

Advantages

- The amalgamated scheme will have a better age and claims cost profile than LMS’s current profile.
- The amalgamated scheme will have a significantly higher solvency ratio than the current LMS solvency ratio.
- The LMS members will become members of the second largest open medical scheme and a scheme that can ensure the future sustainability of their medical scheme membership.
- Bonitas has a Specialist network where members incur no co-payments.
- The members on the Select options can obtain chronic medication from a courier pharmacy as opposed to the State.

Disadvantages

- There is a potential of membership losses due to potential uncertainty created by the amalgamation. Mechanisms and measures will be put in place to minimise the membership losses during this transaction.

7. Actuarial Review

The actuaries of both Schemes were also consulted to review the viability of the amalgamation and the impact on the members of each Scheme. The actuary of LMS confirmed that an amalgamation is in the best interests of the LMS members. The actuary of Bonitas confirmed that an amalgamation with LMS is not expected to negatively impact the future sustainability of Bonitas if the current prudent management of the scheme continues.

8. Disclosure of interest

As far as the parties are aware no trustee or any member of staff of either scheme has an interest in the administrator or any managed healthcare organisation which renders services to either of the schemes. The trustees have endeavoured to ensure that this transaction has been concluded transparently and in terms of all applicable laws.
Exposition of transaction involving the amalgamation of BONITAS MEDICAL FUND and LIBERTY MEDICAL SCHEME in terms of Section 63 of the Medical Schemes Act, Act No. 131 of 1998

Signed on behalf of BONITAS MEDICAL FUND

at _____ Sandton ________ on this ____ 8th ____ day of ______ March __________ 2016

Chairman

Trustee

Principal Officer

Signed on behalf of LIBERTY MEDICAL SCHEME

at _____ Sandton ________ on this ____ 8th ____ day of ______ March __________ 2016

Chairman

Trustee

Principal Officer