

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF MEMBERS OF THE



WILL BE HELD AT 12:30 ON THURSDAY, 3 JUNE 2010,  
IN THE AUDITORIUM, LOWER GROUND FLOOR, PARC DU CAP 7, BELLVILLE.

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#### AGENDA

1. To read the notice convening the Annual General Meeting
2. To approve the minutes of the previous Annual Meeting held on 4 June 2009
3. To announce four elected members to the Board  
  
The following Member-elected Trustees whose terms of office have expired have indicated their availability for re-election: Mrs B Petersen, Messrs J van der Merwe, R du Toit and T Hickman.
4. To receive and adopt the annual report of the Board and financial statements for the year ended 31 December 2009
5. To appoint the auditors for the ensuing year
6. To transact any other business of which notice was given on or before 1 June 2010
7. Closure

**PA DU TOIT (Ms)**  
PRINCIPAL OFFICER

**MINUTES OF THE ANNUAL GENERAL MEETING OF THE METROPOLITAN MEDICAL SCHEME HELD ON 4 JUNE 2009**

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**PRESENT:** Members of the Metropolitan Medical Scheme Board of Trustees  
Members of the Metropolitan Medical Scheme  
Auditors: PricewaterhouseCoopers  
Administrator: Metropolitan Health Group (MHG)

**APOLOGIES:** Mr R du Toit, Mr T Jobson and Mr T Hickman

**1. OPENING AND WELCOME**

The Vice-Chairperson of the Board of Trustees, Ms B Petersen, opened the meeting and welcomed those present.

There being a quorum present, the Chairperson confirmed that the meeting was duly constituted in terms of the rules of the Scheme.

**2. NOTICE CONVENING THE MEETING**

On proposal from Mr C Weitz, seconded by Ms N Hendricks, the notice convening the Annual General Meeting, circulated to all members was TAKEN AS READ.

**3. MINUTES OF THE PREVIOUS ANNUAL GENERAL MEETING**

On proposal from Mr L du Plessis, seconded by Mr G Cillié, the minutes of the Annual General Meeting held on 5 June 2008 were considered read and approved for signing.

**4. ANNOUNCEMENT OF THE THREE ELECTED MEMBERS TO THE BOARD OF TRUSTEES**

The Chairperson informed the meeting that the following Trustees whose terms of office have expired have indicated their availability for re-election: Messrs T Jobson, L du Plessis, J Meyer and G Cillié.

The Chairperson further explained that the nomination form stated that a maximum of seven nominees with the highest number of votes would be the candidates for whom members would be requested to vote.

A number of people received one nomination each and were eliminated from the process.

The total number of votes received was 763.

Ms Petersen thanked the Communications Committee (Mr T Jobson, Ms N Hendricks, Ms R du Toit and Ms T Colyn), web design and Metropolitan Group Internal Audit for auditing and verifying the process.

The meeting noted that the following members received the highest number of votes and would be the Member-elected Trustees for the next two years: Mr T Jobson, Mr G Cillié and Mr J Meyer.

The Chairperson congratulated Messrs Jobson, Cillié and Meyer on their re-appointment as Member-elected Trustees.

**5. ANNUAL REPORT OF THE BOARD**

The annual report of the Board for the year ended 31 December 2008 was ACCEPTED by the meeting with the following comments:

- Membership at 31 December 2008 was 5,547 compared to the previous year's 5,050 principal members.
- Net claims as a percentage of net contributions decreased by 4.8% from 97.5% recorded in 2007 to 92.7% in 2008.
- Managed care: Management services as a percentage of net contributions increased from 1.8% in 2007 to 1.9% in 2008.
- The Scheme's reserve level in December 2008 reflected a healthy 76.10%.

**6. ANNUAL FINANCIAL STATEMENTS**

On proposal from Ms P Gower, seconded by Mr J van der Merwe, the Annual Financial Statements for the year ended 31 December 2008 were ADOPTED.

**MINUTES OF THE ANNUAL GENERAL MEETING OF THE METROPOLITAN MEDICAL SCHEME HELD ON  
4 JUNE 2009 (CONTINUED)**

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**7. APPOINTMENT OF AUDITORS**

On proposal from Mr J Meyer, seconded by Mr C Weitz, PricewaterhouseCoopers were unanimously RE-APPOINTED as external auditors of the Scheme for the ensuing year.

Ms Petersen informed the meeting that in terms of The South African Institute of Chartered Accountants (SAICA), it was required for partners of audit firms to rotate every five years and that PricewaterhouseCoopers complied with this request.

**8. OTHER BUSINESS**

The Chairperson informed the meeting that no other business had been received for discussion, but asked members whether there were any matters they wished to raise.

In noting the net claims for the Premier Option as a percentage of contributions - 100.3% versus 21.5% for the Classic Option - a member questioned the discrepancy between these two options. Ms Petersen explained that this was not really a discrepancy and the Scheme was able to keep annual contribution increases lower due to the fact that contributions were currently subsidised through investment income and the reserves.

It was also noted that given the size of membership (Premier: 4,200 compared to Classic: 1,347), volatility in the claims experience was expected.

**9. VOTE OF APPRECIATION**

Ms Petersen recorded her thanks and appreciation to:

- Metropolitan Holdings Limited, for its active, ongoing and committed support;
- the members of the Scheme for their support;
- colleagues on the Board of Trustees for their support;
- the members of the Audit Committee;
- the management and staff of Metropolitan Health Group;
- the external auditors, PricewaterhouseCoopers;
- the Scheme's healthcare consultants, 5th Quadrant;
- the Registrar of Medical Schemes and his staff;
- all service providers; and
- those present for their attendance.

**10. CLOSURE**

There being no further business the Chairperson closed the meeting and thanked the members present for their attendance.

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**CHAIRPERSON**

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**DATE**

**METROPOLITAN MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES**

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The Board of Trustees hereby presents its report for the year ended 31 December 2009.

Registration number: 1105

**1. MANAGEMENT**

**1.1 Board of Trustees in office during the year under review**

N Beukes	Co-opted member (appointed June 2009)
G Cillié	Member representative
L du Plessis	Co-opted member
R du Toit	Member representative
T Esterhuysen	Member representative (resigned April 2009)
N Hendricks	Member representative (resigned June 2009)
H Hendrikse	Co-opted member
T Hickman	Member representative
T Jobson	Member representative
J Meyer	Member representative
R Naidoo	Co-opted member (appointed June 2009; resigned December 2009)
B Petersen	Chairperson
JJ van der Merwe	Member representative

**1.2 Principal Officer**

**PA du Toit  
per address Metropolitan Life**

Cnr of Mispel and Durban Roads	PO Box 15716
Parc du Cap	Vlaeberg
Bellville	8018
7535	

**1.3 Registered office address and postal address**

**Metropolitan Medical Scheme**

Town Square Building	PO Box 15716
61 St George's Mall	Vlaeberg
Cape Town	8018
8000	

**1.4 Scheme Administrator**

**Metropolitan Health Corporate (Pty) Ltd**

Town Square Building	PO Box 4313
61 St George's Mall	Cape Town
Cape Town	8000
8000	

**1.5 Investment manager**

**Metropolitan Asset Managers (Pty) Ltd**

Corner of Durban and Mispel Roads	PO Box 2500
Parc du Cap 5	Bellville
Bellville	7535
7530	

**1.6 Auditors**

**PricewaterhouseCoopers Inc**

1 Waterhouse Place	PO Box 2799
Century City	Cape Town
Cape Town	8000
7441	

**METROPOLITAN MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

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**1. MANAGEMENT (CONTINUED)**

**1.7 Actuarial consultants**

**Fifth Quadrant**

Great Westerford Building  
2nd Floor, Suit 2, South Wing  
240 Main Road  
Rondebosch  
7700

Private Bag X30  
Rondebosch  
Cape Town  
7701

**2. DESCRIPTION OF THE SCHEME**

**2.1 Terms of registration**

The Metropolitan Medical Scheme is a not-for-profit restricted medical scheme registered in terms of the Medical Schemes Act 131 of 1998, as amended.

**2.2 Benefit options within the Metropolitan Medical Scheme**

The Scheme offers the following two options to its members:

- Classic Option; and
- Premier Option.

**2.3 Savings plan**

There is no savings plan.

**3. INVESTMENT STRATEGY**

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

The Board of Trustees is responsible for the investment strategy and to ensure that:

- the Scheme's investments remain liquid;
- investments are placed at minimum risk and the best possible rate of return; and
- investments are made in compliance with the regulations of the Act.

The Scheme invested in an insurance policy with a managed portfolio, consisting of local equities, bonds, property and cash. The policy investment is reviewed annually, taking into consideration compliance with the Act, the risk and returns of the various investment instruments and the surplus of funds available.

The Board of Trustees frequently monitors the performance of the investment and asset manager, and where necessary, the Trustees use the services of independent advisors to assist in the process.

**4. MANAGEMENT OF 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. These risks relate to the health of the Scheme members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Scheme also has exposure to market risk through its insurance and investment activities.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation, case management and service provider profiling. These methods for mitigating insurance risk are reviewed annually and amended for changes in the Medical Schemes Act and/or changes in the Scheme's ability to accept insurance risk.

The Board of Trustees frequently assess the necessity to enter into risk transfer arrangements, with the assistance of the Scheme's actuarial consultants.

**METROPOLITAN MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

**4. MANAGEMENT OF INSURANCE RISK (CONTINUED)**

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

Insurance events are by their nature random and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

**5. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES**

**5.1 Operational statistics**

	<b>2009</b>	<b>2009</b>	<b>2009</b>
	<b>Classic</b>	<b>Premier</b>	<b>Total</b>
Number of members at the end of the accounting period	1,552	4,182	5,734
Average number of members for the accounting period	1,337	4,230	5,567
Number of beneficiaries at the end of the accounting period	3,274	10,430	13,704
Average age of beneficiaries for the accounting period	21.6	29.3	25.4
Average number of beneficiaries for the accounting period	2,827	10,582	13,409
Dependant ratio	53%	60%	58%
Pensioner ratio	2.0%	13.0%	10.4%
Average contributions per member per month	R979	R2,192	R1,901
Average contributions per beneficiary per month	R463	R876	R789
Average claims incurred per member per month	R217	R2,390	R1,868
Average claims incurred per beneficiary per month	R103	R955	R776
Average administration costs per member per month	R133	R152	R147
Average administration cost per beneficiary per month	R63	R61	R61
Average managed care: Management services per member per month	R40	R40	R40
Average managed care: Management services per beneficiary per month	R19	R16	R17
Average accumulated funds per member at 31 December	N/A	N/A	R15,422
Net claims as a percentage of contributions	21.6%	108.8%	98.0%
Managed care: Management services as a percentage of contributions	4.1%	1.8%	2.1%
Relevant healthcare expenditure per beneficiary per month	R100	R953	R773
Non-healthcare expenditure per beneficiary per month	R83	R79	R80
Amount paid to Administrator	R1,979,535	R7,194,836	R9,174,371
Non-health expenses as a percentage of contributions	17.9%	9.0%	10.1%
Return on investments	N/A	N/A	10.6%

	<b>2008</b>	<b>2008</b>	<b>2008</b>
	<b>Classic</b>	<b>Premier</b>	<b>Total</b>
Number of members at the end of the accounting period	1,347	4,200	5,547
Average number of members for the accounting period	971	4,239	5,210

**METROPOLITAN MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

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

**5.1 Operational statistics (continued)**

	<b>2008</b>	<b>2008</b>	<b>2008</b>
	<b>Classic</b>	<b>Premier</b>	<b>Total</b>
Number of beneficiaries at the end of the accounting period	2,896	10,580	13,476
Average age of beneficiaries for the accounting period	22.8	29.7	28.5
Average number of beneficiaries for the accounting period	2,101	10,706	12,807
Dependant ratio	53%	60%	59%
Pensioner ratio	2.2%	12.8%	10.8%
Average contributions per member per month	R931	R2,008	R1,807
Average contributions per beneficiary per month	R430	R795	R735
Average claims incurred per member per month	R204	R2,016	R1,678
Average claims incurred per beneficiary per month	R94	R798	R683
Average administration costs per member per month	R125	R142	R139
Average administration cost per beneficiary per month	R58	R56	R57
Average managed care: Management services per member per month	R35	R35	R35
Average managed care: Management services per beneficiary per month	R16	R14	R14
Average accumulated funds per member at 31 December	N/A	N/A	R15,502
Net claims as a percentage of contributions	21.5%	100.3%	92.7%
Managed care: Management services as a percentage of contributions	3.8%	1.7%	1.9%
Relevant healthcare expenditure per beneficiary per month	R93	R797	R682
Non-healthcare expenditure per beneficiary per month	R76	R73	R73
Amount paid to Administrator	R1,332,624	R6,677,570	R8,010,194
Non-health expenses as a percentage of contributions	17.6%	9.1%	9.9%
Return on investments	N/A	N/A	3.4%

**5.2 Results of operations**

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

**5.3 Accumulated funds ratio**

**2009**  
**R**

**2008**  
**R**

The accumulated funds ratio is calculated on the following basis:

Total members' funds per statement of financial position	114,878,135	112,757,195
Less: Revaluation reserve: Investments	27,050,896	26,768,853
Accumulated funds per Regulation 29 of the Act	<u>87,827,239</u>	<u>85,988,342</u>
Annual contributions	<u>126,981,411</u>	<u>112,992,025</u>
Accumulated funds ratio:		
Accumulated funds/annual contribution income x 100%	<u>69.17%</u>	<u>76.10%</u>

**METROPOLITAN MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

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

**5.4 Reserve accounts**

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

**5.5 Revaluation reserve**

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

**5.6 Outstanding claims**

Movements on the outstanding claims provision are set out in note 6 to the statement of financial position. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Scheme.

**6. ACTUARIAL SERVICES**

The Scheme's actuaries, Fifth Quadrant, have been consulted in the determination of the contribution and benefit levels.

**7. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE**

There have been no events that have occurred subsequent to the end of the accounting period that affect the annual financial report that the Trustees consider should be brought to the attention of the members.

**8. INVESTMENTS IN AND LOANS TO EMPLOYERS OR MEMBERS OF THE SCHEME AND TO OTHER RELATED PARTIES**

The Scheme has an investment in the form of an insurance policy with a subsidiary of the participating employer. The insurance policy is invested in a managed portfolio amounting to R111,946,381 (2008: R109,508,074) in the Metropolitan Managed Fund that is managed by Metropolitan Asset Managers (Pty) Ltd, a subsidiary of the employer.

It is not the policy of the Scheme to provide loans to its members.

Metropolitan Health Corporate (Pty) Ltd, a subsidiary of the employer, Metropolitan Holdings Ltd, is the contracted Administrator of the Scheme, who has an influence on the management and operations of the Scheme.

Managed healthcare services are being provided by Qualsa, a subsidiary of Metropolitan Health Corporate (Pty) Ltd.

**9. INVESTMENT SUB-COMMITTEE**

The primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme's investment policies.

The committee presently comprises:

- G Cillié
- T Esterhuysen (resigned April 2009)
- B Petersen
- R Naidoo (resigned December 2009).

**10. AUDIT COMMITTEE**

An Audit Committee is established in accordance with provisions of the Act. The committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The committee consists of five members of which two are members of the Board of Trustees.

**METROPOLITAN MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

**10. AUDIT COMMITTEE (CONTINUED)**

The majority of the members, including the Chairperson, are not officers of the Scheme or its third-party Administrator. The committee met on three occasions during the year, as follows:

- 26 February 2009;
- 7 April 2009; and
- 15 October 2009.

The Chairperson of the Scheme, the financial manager and the external and internal auditors are required to attend all committee meetings and have unrestricted access to the Chairperson of the committee.

In accordance with the provisions of the Act, the primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems and financial reporting practices. The external auditors formally report to the committee on significant findings arising from audit activities.

The committee presently comprises:

- C Abbott Independent - appointed October 2009
- N Beukes Trustee - appointed October 2009
- H Hendrikse Trustee
- B Petersen Trustee
- P Scannell Chairperson - independent
- A Visagie Independent - resigned February 2009
- J Wassung Independent

**11. TRUSTEE MEETING ATTENDANCE**

The following schedules set out Board of Trustee meeting attendances and attendances by members of the Board and sub-committees. Trustee remuneration is disclosed in note 8 to the Annual Financial Statements.

Trustee/sub-committee member	Board meetings		Audit Committee meetings		Investment Sub-committee meetings	
	A	B	A	B	A	B
C Abbott			1	1		
N Beukes	5	3	1	1		
G Cillié	7	5			3	3
L du Plessis	7	6				
R du Toit	7	7				
T Esterhuysen	2	1	1	0	0	0
N Hendricks	2	2				
H Hendrikse	7	6	3	3		
T Hickman	7	7				
T Jobson	7	4				
J Meyer	7	5				
R Naidoo	5	3			3	3
B Petersen	7	7	3	3	3	3
P Scannell			3	3		
JJ van der Merwe	7	5				
A Visagie			1	0		
J Wassung			3	3		

*A - Total possible number of meetings could have attended*

*B - Actual number of meetings attended*

**METROPOLITAN MEDICAL SCHEME  
REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

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**12. FIDELITY COVER**

The Scheme has cover through Alexander Forbes for the period 1 January 2009 to 31 December 2009. The value of the cover is R10 million and is extended to the Trustees and officers of the Scheme.

**13. NON-COMPLIANCE MATTERS**

**13.1 Outstanding contributions**

**Nature and impact**

In terms of section 26(7) of the Act, contributions should be received in accordance with the rules of the Scheme, which indicate that it should be received at the latest three days after it is due. An amount of R349,086 (2007: R384,774) was still outstanding three days after it was due.

**Causes for the failure**

A monthly reconciliation takes place between the participating employer groups and the Administrator in terms of monthly contributions. In general these reconciliation investigations take more than three days to resolve.

**Corrective action**

The Administrator took actions against defaulting members according to the approved mandate provided by the Scheme.

**13.2 Contravention of Regulation 30 of the Medical Schemes Act**

**Nature and impact**

In terms of Circular 38 of 2008, as a result of the unbundling of Remgro and Richemont, the Scheme holds shares in British American Tobacco (BTI). These shares have been categorised as "foreign shares" by the South African Reserve Bank for foreign control purposes.

**Causes for the failure**

As a result of the unbundling of Remgro and Richemont, the Scheme held shares in British American Tobacco (BTI) at year end.

**Corrective action**

The Scheme applied for an exemption as per circular 38. The Council for Medical Schemes approved the exemption and the Scheme was granted until 28 October 2010 to dispose of the non-compliant BTI shares.

**13.3 Sustainability of benefit options**

**Nature and impact**

In terms of section 33(2) of the Act, each option shall be self-supporting in terms of membership and financial performance and be financially sound.

**Option**

**Deficit for the year**

Premier

R  
9,146,713

**Causes for the failure**

Members on the Premier Option claimed in general more than they contributed.

**Corrective action**

The Trustees, together with the Benefits Review Committee actively manage and monitor the deficit on the Premier Option.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF METROPOLITAN MEDICAL SCHEME**  
**Report on the summarised financial statements**

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The summarised financial statements set out on pages 12 to 19 have been derived from the financial statements of Metropolitan Medical Scheme for the year ended 31 December 2009. These summarised financial statements are the responsibility of the Scheme's Trustees. Our responsibility is to express an opinion on whether these summarised financial statements are consistent, in all material respects, with the financial statements from which they were derived.

We have audited the Annual Financial Statements of Metropolitan Medical Scheme for the year ended 31 December 2009, from which the summarised financial statements were derived, in accordance with International Standards on Auditing.

In our report dated 13 April 2010, we expressed an unqualified opinion on the financial statements from which the summarised financial statements were derived.

In our opinion, the summarised financial statements are consistent, in all material respects, with the financial statements from which they are derived.

For a better understanding of the Scheme's financial position and its financial performance for the year ended 31 December 2009 and of the scope of our audit, the summarised financial statements should be read in conjunction with the financial statements from which the summarised financial statements were derived and our audit report thereon.

*PricewaterhouseCoopers Inc.*

**PricewaterhouseCoopers Inc**

Director: NA Jacobs

Registered Auditor

Cape Town

13 April 2010

**METROPOLITAN MEDICAL SCHEME  
STATEMENT OF FINANCIAL POSITION  
as at 31 December 2009**

<b>ASSETS</b>	<b>2009 R</b>	<b>2008 R</b>
<b>Non-current assets</b>	111,946,381	109,508,074
Available-for-sale investments	111,946,381	109,508,074
<b>Current assets</b>	9,244,704	8,209,368
Trade and other receivables	387,820	453,146
Cash and cash equivalents	8,856,884	7,756,222
<b>Total assets</b>	121,191,085	117,717,442
<b>FUNDS AND LIABILITIES</b>		
<b>Members' funds</b>	114,878,135	112,757,195
Accumulated funds	87,827,239	85,988,342
Available-for-sale revaluation reserve	27,050,896	26,768,853
<b>Current liabilities</b>	6,312,950	4,960,247
Trade and other payables	1,607,094	327,112
Outstanding claims provision	4,705,856	4,633,135
<b>Total funds and liabilities</b>	121,191,085	117,717,442

**METROPOLITAN MEDICAL SCHEME  
STATEMENT OF COMPREHENSIVE INCOME  
for the year ended 31 December 2009**

	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
<b>Contribution income</b>	126,981,411	112,992,025
Net claims incurred	(124,434,299)	(104,760,570)
Claims incurred	(124,806,495)	(104,915,865)
Third-party claim recoveries	372,196	155,295
<b>Gross healthcare result</b>	2,547,112	8,231,455
Administration expenses	(9,833,261)	(8,690,371)
Managed care: Management services	(2,656,033)	(2,199,959)
Net impairment gains on healthcare receivables	1,388	421
<b>Net healthcare result</b>	(9,940,794)	(2,658,454)
<b>Other income</b>	12,108,256	11,578,638
Investment income	12,065,613	11,515,524
Sundry income	42,643	63,114
<b>Other expenditure</b>	(328,565)	(332,764)
Asset management fees	(328,565)	(332,764)
<b>Net surplus for the year</b>	1,838,897	8,587,420
<b>Other comprehensive income</b>		
Fair value adjustment on available-for-sale investment	282,043	(7,414,202)
<b>Total comprehensive income for the year</b>	2,120,940	1,173,218

**METROPOLITAN MEDICAL SCHEME  
STATEMENT OF CHANGES IN FUNDS AND RESERVES  
for the year ended 31 December 2009**

	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
<b>Accumulated funds</b>		
Balance at the beginning of the year	85,988,342	77,400,922
Net surplus for the year	1,838,897	8,587,420
	<u>87,827,239</u>	<u>85,988,342</u>
<b>Available-for-sale revaluation reserve</b>		
Balance at the beginning of the year	26,768,853	34,183,055
Unrealised gain/(loss) on available-for-sale investment	282,043	(7,414,202)
	<u>27,050,896</u>	<u>26,768,853</u>

**STATEMENT OF CASH FLOWS  
for the year ended 31 December 2009**

	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash utilised by operating activities	(8,480,122)	(5,206,593)
Interest received	580,784	624,059
<b>Net cash utilised by operations</b>	<u>(7,899,338)</u>	<u>(4,582,534)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposal of available-for-sale investment	9,000,000	4,000,000
<b>Net cash generated from investing activities</b>	<u>9,000,000</u>	<u>4,000,000</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,100,662	(582,534)
Cash and cash equivalents at beginning of year	7,756,222	8,338,756
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>8,856,884</u>	<u>7,756,222</u>

**METROPOLITAN MEDICAL SCHEME  
NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2009**

**PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of the financial statements are set out below and are in accordance with International Financial Reporting Standards (IFRS). These policies were consistently applied to the previous year, unless otherwise stated.

**Basis of preparation**

The financial statements are prepared in accordance with IFRS. IFRS comprise International Financial Reporting Standards, International Accounting Standards (IAS) and the interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). The standards referred to are set by the International Accounting Standards Board (IASB). The financial statements are prepared on a going concern basis using the historical cost convention, except for available-for-sale investments, which are carried at fair value.

All monetary information and figures presented in these financial statements are stated in South African Rand.

<b>OUTSTANDING CLAIMS PROVISION</b>	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
Provision for outstanding claims	4,705,856	4,633,135
Provision arising from liability adequacy test	-	-
	<u>4,705,856</u>	<u>4,633,135</u>
<b>Analysis of movements in outstanding claims</b>		
Balance at the beginning of the year	4,633,135	4,088,666
Payments in respect of the prior year	(4,335,297)	(3,612,793)
Over provision in respect of the prior year	297,838	475,873
Movement in outstanding claims provision	4,408,018	4,157,262
Provision at the end of the year	<u>4,705,856</u>	<u>4,633,135</u>

**Process used to determine the assumptions**

The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out monthly. These detailed studies include an analysis of claims settlement trends, as well as benefit usage trends to determine the most likely outcome. There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used. Assumptions are derived for each benefit option based on the nature of the claims and characteristics of the option participants.

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

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

The actual method used is consistent with prior years, categories of claims and observed historical claims development. To the extent that these methods use historical claims development information they assume that the historical claims development pattern will occur again in the future.

**METROPOLITAN MEDICAL SCHEME  
NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2009 (continued)**

**OUTSTANDING CLAIMS PROVISION (CONTINUED)**

There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

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

**Assumptions**

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the expected percentages of claims settled after each of the first four months of the claims run-off period, before the claims turn stale. The percentages used as assumptions are listed in the table below. The table also outlines the sensitivity of these percentages and the impact on the Scheme's liabilities if an incorrect assumption is used.

**Other assumptions:**

- The actual demographics of the Scheme were used, including all membership movements for the period.
- The effect of ageing of the population on the utilisation of health services is automatically incorporated.
- Utilisation escalation has been provided for the impact of HIV/AIDS.

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

	<b>2009</b>	<b>2008</b>
	%	%
Claims outstanding for services rendered in:		
- December	9	9
- November	6	4
- October	2	2
- September	2	1
- August and prior	2	0.7

The impact of the sensitivity on these assumptions are illustrated below:

	<b>2009</b>	<b>2008</b>
	R	R
Effect of a 1 percentage point change in assumptions	499,926	448,284
Effect of a 2 percentage point change in assumptions	1,010,268	906,104
Effect of a 3 percentage point change in assumptions	1,531,416	1,373,827

This analysis is prepared for a change in a specific variable, namely claims outstanding at the end of each month, with other assumptions remaining constant.

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 upon certain variables and assumptions that could differ when claims arise.

**METROPOLITAN MEDICAL SCHEME  
NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2009 (continued)**

**SURPLUS FROM OPERATIONS PER BENEFIT OPTION**

For management purposes the Scheme is organised into two benefits options, namely the Premier Option and the Classic Option.

<b>2009</b>	<b>Classic R</b>	<b>Premier R</b>	<b>Total R</b>
<b>Contribution income</b>	15,709,531	111,271,880	126,981,411
Net claims incurred	(3,394,910)	(121,039,389)	(124,434,299)
Claims incurred	(3,485,839)	(121,320,656)	(124,806,495)
Third-party claim recoveries	90,929	281,267	372,196
<b>Gross healthcare result</b>	12,314,621	(9,767,509)	2,547,112
Administration expenses	(2,134,728)	(7,698,533)	(9,833,261)
Managed care: Management services	(638,376)	(2,017,657)	(2,656,033)
Net impairment gains on healthcare receivables	284	1,104	1,388
<b>Net healthcare result</b>	9,541,801	(19,482,595)	(9,940,794)
Investment and other income	1,484,473	10,623,783	12,108,256
Asset management fees	(40,664)	(287,901)	(328,565)
<b>Net surplus/(deficit) for the year</b>	10,985,610	(9,146,713)	1,838,897
<b>2008</b>	<b>Classic R</b>	<b>Premier R</b>	<b>Total R</b>
<b>Contribution income</b>	10,842,312	102,149,713	112,992,025
Net claims incurred	(2,333,780)	(102,426,790)	(104,760,570)
Claims incurred	(2,371,491)	(102,544,374)	(104,915,865)
Third-party claim recoveries	37,711	117,584	155,295
<b>Gross healthcare result</b>	8,508,532	(277,077)	8,231,455
Administration expenses	(1,458,915)	(7,231,456)	(8,690,371)
Managed care: Management services	(412,749)	(1,787,210)	(2,199,959)
Net impairment gains on healthcare receivables	411	10	421
<b>Net healthcare result</b>	6,637,279	(9,295,733)	(2,658,454)
Investment and other income	1,120,315	10,458,323	11,578,638
Asset management fees	(31,931)	(300,833)	(332,764)
<b>Net surplus for the year</b>	7,725,663	861,757	8,587,420

**Basis of allocation**

Except for contribution income, claims and investment income, all other income and expenses are allocated according to membership.

**METROPOLITAN MEDICAL SCHEME  
NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2009 (continued)**

<b>INVESTMENT INCOME</b>	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
Available-for-sale investment	11,484,829	10,891,465
- Interest income	6,195,231	6,695,214
- Dividends	1,077,921	1,939,523
- Rental income	690,695	747,971
- Realised gains on available-for-sale investment	3,520,982	1,508,757
Cash and cash equivalents - interest income	580,784	624,059
	<u>12,065,613</u>	<u>11,515,524</u>

**RELATED PARTY TRANSACTIONS**

Metropolitan Health Corporate (Pty) Ltd (MHC) has significant influence over the Scheme, as it provides financial and operational information on which policy decisions are based, but does not control the Scheme. MHC provides administration services.

Managed care organisation, Qualsa Healthcare (Pty) Ltd, a wholly owned subsidiary of Metropolitan Health Corporate (Pty) Ltd, has significant influence over the Scheme as managed care provider, but does not control the Scheme.

The Scheme's insurance policy invested in the Metropolitan Managed Fund is managed by Metropolitan Asset Managers (Pty) Ltd, which has significant influence over the Scheme. It manages a material portion of the Scheme's total assets, but does not control the Scheme.

**Transactions with key management personnel, including Trustees**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board of Trustees, the Principal Officer and members of sub-committees.

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

**Transactions with related parties**

The following table provides the total number of transactions that have been entered into with related parties for the relevant financial year.

	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
<b>Statement of comprehensive income</b>		
Contributions received (key management personnel)	388,721	339,483
Claims incurred (key management personnel)	456,654	299,495
Asset manager's fee	328,565	332,764
Administration fees	9,174,371	8,010,193
Managed care fees	2,656,033	2,199,959

The Principal Officer is a related party but did not receive remuneration from the Scheme for services rendered as Principal Officer.

**Statement of financial position**

Investment	111,946,381	109,508,074
Printing	7,600	-

**Trustee attendance fees**

JJ van der Merwe	5,000	8,000
	<u>5,000</u>	<u>8,000</u>

**METROPOLITAN MEDICAL SCHEME  
NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2009 (continued)**

**RELATED PARTY TRANSACTIONS (CONTINUED)**

<b>Audit Committee attendance fees</b>	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
C Abbott	1,000	
P Scannell	3,000	4,000
A Visagie	-	3,000
J Wassung	3,000	4,000
	<u>7,000</u>	<u>11,000</u>

**The terms and conditions of the related party transactions were as follows:**

**Contributions received (key management personnel)**

This constitutes the contributions paid by the related party as a member of the Scheme, in its individual capacity. All contributions were on the same terms as applicable to other members.

**Claims incurred (key management personnel)**

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 other members.

**Investment**

This constitutes the fees paid to the asset manager for managing the Scheme's investment portfolio. The asset manager manages the portfolio according to the mandate received from the Scheme. Fees paid to the asset manager are documented in a formal agreement with the asset manager and are market related.

**Administration**

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

**Managed care**

The managed care agreement is in terms of the rules of the Scheme and in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite but subject to the right of either party to terminate the agreement by giving not less than three months' notice. The outstanding balance bears no interest and is due within 30 days.

**CONTINGENT ASSET**

At 31 December 2009, the Scheme has a contingent asset to the value of R3,391,791 (2008: R1,476,359). This relates to Road Accident Fund (RAF) claims submitted, where there is no assurance of recovery and the duration of the recovery period is of such a nature that the asset has not been recognised in the 2009 financial year. Income will be recognised, as and when the recoveries are paid over to the Scheme. In 2009 the Scheme recovered R378,560 (2008: R155,295) from the RAF.

**METROPOLITAN MEDICAL SCHEME  
VOTE OF APPRECIATION**

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On behalf of the Metropolitan Medical Scheme, we wish to express our thanks to the following people/organisations:

1. Metropolitan Holdings Limited, for their active, ongoing and committed support;
2. our members for their ongoing support;
3. our colleagues on the Board of Trustees for their support;
4. the members of the Audit Committee;
5. the management and staff at Metropolitan Health Group for the diligent manner in which they have managed the day-to-day affairs of the Scheme;
6. the External Auditors, PricewaterhouseCoopers, for the efficient manner in which they conducted their audit and for the audit services that they have rendered;
7. the Scheme's healthcare consultants;
8. the Registrar of Medical Schemes and his staff for their cooperation and assistance during the year; and
9. all service providers.