

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



WILL BE HELD AT 12:30 ON THURSDAY, 4 JUNE 2009,
IN THE AUDITORIUM, LOWER GROUND FLOOR, PARC DU CAP 7, BELLVILLE.

AGENDA

1. To read the Notice convening the Annual General Meeting
2. To approve the Minutes of the previous Annual Meeting held on 5 June 2008
3. To announce three elected members to the Board

The following Member-elected 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
4. To receive and adopt the Annual Report of the Board and Financial Statements for the year ended 31 December 2008
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 2009
7. Closure

PA DU TOIT (Ms)
PRINCIPAL OFFICER

MINUTES OF THE ANNUAL GENERAL MEETING OF THE METROPOLITAN MEDICAL SCHEME HELD ON 5 JUNE 2008

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 JJ van der Merwe

1. OPENING AND WELCOME

The Chairperson of the Board of Trustees, Mr Esterhuyse, 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 R du Toit, seconded by Mr T Hickman, 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 T Jobson, seconded by Mr R du Toit, the Minutes of the Annual General Meeting held on 7 June 2007 were considered read and approved for signing.

4. ANNOUNCEMENT OF THE FOUR MEMBERS ELECTED 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 Hickman, R du Toit, J van der Merwe and Ms B Petersen.

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

Six nominees received several nominations, but one nominee withdrew from the process. A number of people received one nomination each and were eliminated from the process.

The total number of votes received was 1,005.

The Chairperson informed the meeting that the following members received the highest number of votes and would be the Member-elected Trustees for the next two years: Messrs T Hickman, R du Toit, J van der Merwe and Ms B Petersen.

The Chairperson congratulated Messrs T Hickman, R du Toit, J van der Merwe and Ms B Petersen 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 2007 was **ACCEPTED** by the meeting with the following comments:

- Membership at 31 December 2007 was 5,050 principal members compared to the previous year's 4,748 principal members.
- Net claims as a percentage of net contributions increased by 6.4% from 91.1% in 2006 to 97.5% in 2007.
- Managed care: Management services as a percentage of net contributions remained at 1.8%.
- The Scheme's reserve level in December 2007 reflected a healthy 76.91%.

6. ANNUAL FINANCIAL STATEMENTS

On proposal from Mr T Jobson, seconded by Ms B Petersen, the annual financial statements for the year ended 31 December 2007 were **ADOPTED**.

MINUTES OF THE ANNUAL GENERAL MEETING OF THE METROPOLITAN MEDICAL SCHEME HELD ON 5 JUNE 2008 (CONTINUED)

7. APPOINTMENT OF AUDITORS

On proposal from Mr R du Toit, seconded by Mr T Hickman, PricewaterhouseCoopers was unanimously **RE-APPOINTED** as external auditors of the Scheme for the ensuing year.

8. OTHER BUSINESS

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

Ms R Fouché enquired as to the audit fee expenses not reflected in the financial statements. Mr Esterhuysen explained that the Scheme paid these fees. He further explained that only abridged financial statements were distributed to members and that the audit fees were disclosed in the full set of financial statements, which were available for scrutiny.

In noting the net claims for the Premier option as a percentage of contributions (100.9%), Ms Fouché asked if this was an acceptable industry average. Mr Esterhuysen explained that if possible the Scheme should aim for 95% to allow reserves to grow. However, the reserves of the Scheme are currently at a very high level. Hence a 95% ratio is not required at this stage.

Ms Fouché further enquired as to the sustainability of the Scheme. Mr Esterhuysen explained that the Scheme was sustainable due to the fact that contributions were currently subsidised by investment income and, to some extent, the reserves. However, he cautioned that at some point in future the contribution increases would need to be more in line with medical scheme inflation.

Ms Fouché finally enquired as to whether the Scheme needed to pay tax on its investment income. Mr Esterhuysen confirmed that the Scheme's investment income was not taxable.

9. VOTE OF APPRECIATION

Mr Esterhuysen recorded his thanks and appreciation to:

- Metropolitan Holdings Limited, for their 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 MHG;
- the external auditors, PricewaterhouseCoopers;
- the Scheme's healthcare consultants, Fifth Quadrant;
- 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.

CHAIRPERSON

DATE

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

The Board of Trustees hereby presents its report for the year ended 31 December 2008.

1. MANAGEMENT

1.1 Board of Trustees in office during the year under review

G Cillié	Co-opted member
L du Plessis	Co-opted member
R du Toit	Member representative
T Esterhuysen	Chairperson
N Hendricks	Member representative
H Hendrikse	Co-opted member
T Hickman	Member representative
T Jobson	Member representative
J Meyer	Co-opted member
B Petersen	Member representative
JJ van der Merwe	Member representative

1.2 Principal Officer

PA du Toit

Metropolitan Life Corner of Mispel and Durban Roads Parc du Cap Bellville 7535	PO Box 15716 Vlaeberg 8018
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1.3 Registered office address and postal address

Metropolitan Medical Scheme

Town Square Building 61 St George's Mall Cape Town 8000	PO Box 15716 Vlaeberg 8018
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1.4 Scheme Administrator during the year

Metropolitan Health Corporate (Pty) Ltd

Town Square Building 61 St George's Mall Cape Town 8000	PO Box 4313 Cape Town 8000
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1.5 Investment managers during the year

Metropolitan Asset Managers (Pty) Ltd

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

PricewaterhouseCoopers Inc

1 Waterhouse Place Century City Cape Town 7441	PO Box 2799 Cape Town 8000
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**METROPOLITAN MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES (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's 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 assesses 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)**

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

	2008	2008	2008
	Classic	Premier	Total
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
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	28.4
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	931	2,008	1,807
Average contributions per beneficiary per month	430	795	735
Average claims incurred per member per month	204	2,016	1,678
Average claims incurred per beneficiary per month	94	798	683
Average administration costs per member per month	125	142	139
Average administration cost per beneficiary per month	58	56	57
Average managed care: Management services per member per month	35	35	35
Average managed care: Management services per beneficiary per month	16	14	14
Average accumulated funds per member at 31 December	N/A	N/A	15,502
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	93	797	682
Non-healthcare expenditure per beneficiary per month	76	73	73
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 as a percentage of investments	N/A	N/A	3.4%

	2007	2007	2007
	Classic	Premier	Total
Number of members at the end of the accounting period	756	4,294	5,050
Average number of members for the accounting period	343	4,502	4,845
Number of beneficiaries at the end of the accounting period	1,662	10,948	12,610
Average age of beneficiaries for the accounting period	23.1	29.3	28.5
Average number of beneficiaries for the accounting period	728	11,452	12,180

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

	2007	2007	2007
	Classic	Premier	Total
Dependant ratio	55%	61%	60%
Pensioner ratio	6.1%	11.8%	11.4%
Average contributions per member per month	1,023	1,785	1,731
Average contributions per beneficiary per month	482	702	689
Average claims incurred per member per month	218	1,803	1,691
Average claims incurred per beneficiary per month	103	709	673
Average administration costs per member per month	117	134	133
Average administration cost per beneficiary per month	55	53	53
Average managed care: Management services per member per month	32	32	32
Average managed care: Management services per beneficiary per month	15	12	13
Average accumulated funds per member at 31 December	N/A	N/A	15,379
Net claims as a percentage of contributions	21.1%	100.9%	97.5%
Managed care: Management services as a percentage of contributions	3.1%	1.8%	1.8%
Relevant healthcare expenditure per beneficiary per month	102	708	672
Non-healthcare expenditure per beneficiary per month	72	67	68
Amount paid to Administrator	R437,176	R6,629,869	R7,067,045
Non-health expenses as a percentage of contributions	14.9%	9.6%	9.8%
Return on investments as a percentage of investments	N/A	N/A	11.2%

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

	2008	2007
	R	R
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per balance sheet	112,757,195	111,583,977
Less: Revaluation reserve: Investments	26,768,853	34,183,055
Accumulated funds per Regulation 29 of the Act	<u>85,988,342</u>	<u>77,400,922</u>
Annual contributions	<u>112,992,025</u>	<u>100,641,408</u>
Accumulated funds ratio:		
Accumulated funds/annual contribution income x 100%	<u>76.10%</u>	<u>76.91%</u>

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.

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

5.6 Outstanding claims

Movements on the outstanding claims provision are set out in a note to the balance sheet. 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 BALANCE SHEET 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 R109,508,074 (2007: R110,363,575) 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; and
- B Petersen.

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. 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:

- 6 March 2008;
- 15 April 2008; and
- 9 October 2008.

The Chairperson of the Scheme, the Financial Manager, 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 critical findings arising from audit activities.

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

The committee presently comprises:

– P Scannell	Chairperson - independent
– A Visagie	Independent
– H Hendrikse	Trustee
– B Petersen	Trustee
– J Wassung	Independent

11. TRUSTEE MEETING ATTENDANCE

The following schedules sets out Board of Trustee meeting attendances, attendances by members of the board and sub-committees. Trustee remuneration is disclosed in a note to these summarised financial statements.

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

A. Total possible number of meetings could have attended

B. Actual number of meetings attended

12. FIDELITY COVER

The Scheme had cover through Alexander Forbes for the period 1 January 2008 to 31 December 2008. 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 indicates that it should be received at the latest three days after it is due. An amount of R384,774 (2007: R80,740) was still outstanding three days after it was due.

Causes for the failure

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

Corrective action

The Administrator took action 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). For foreign control purposes these shares have been categorised as "foreign shares" by the South African Reserve Bank.

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.

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

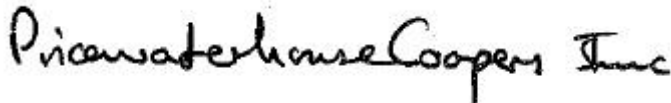
The summarised financial statements set out on pages 12 to 19 have been derived from the financial statements of Metropolitan Medical Scheme for the year ended 31 December 2008. These summarised financial statements are the responsibility of the Scheme's Trustees. Our responsibility is to express an 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 2008, from which the summarised financial statements were derived, in accordance with International Standards on Auditing.

In our report dated 7 April 2009, 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 2008 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
Director: NA Jacobs
Registered Auditor
Cape Town
23 April 2009

**METROPOLITAN MEDICAL SCHEME
SUMMARISED FINANCIAL STATEMENTS**

**BALANCE SHEET
as at 31 December 2008**

	2008	2007
	R	R
ASSETS		
Non-current assets	109,508,074	110,363,575
Available-for-sale investments	109,508,074	110,363,575
Current assets	8,209,368	8,487,086
Trade and other receivables	453,146	148,330
Cash and cash equivalents	7,756,222	8,338,756
Total assets	117,717,442	118,850,661
FUNDS AND LIABILITIES		
Members' funds	112,757,195	111,583,977
Accumulated funds	85,988,342	77,400,922
Available-for-sale revaluation reserve	26,768,853	34,183,055
Current liabilities	4,960,247	7,266,684
Trade and other payables	327,112	3,178,018
Outstanding claims provision	4,633,135	4,088,666
Total funds and liabilities	117,717,442	118,850,661

**METROPOLITAN MEDICAL SCHEME
SUMMARISED FINANCIAL STATEMENTS**

**INCOME STATEMENT
for the year ended 31 December 2008**

	2008	2007
	R	R
Contribution income	112,992,025	100,641,408
Net claims incurred	(104,760,570)	(98,149,046)
Claims incurred	(104,915,865)	(98,317,606)
Third-party claim recoveries	155,295	168,560
Gross healthcare result	8,231,455	2,492,362
Administration expenses	(8,690,371)	(7,730,801)
Managed care: Management services	(2,199,959)	(1,832,253)
Net impairment gains/(losses) on healthcare receivables	421	(714)
Net healthcare result	(2,658,454)	(7,071,406)
Other income	11,578,638	11,799,209
Investment income	11,515,524	11,759,362
Sundry income	63,114	39,847
Other expenditure	(332,764)	(327,997)
Asset management fees	(332,764)	(327,997)
Net surplus for the year	8,587,420	4,399,806

**METROPOLITAN MEDICAL SCHEME
SUMMARISED FINANCIAL STATEMENTS**

**STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2008**

	2008	2007
	R	R
Accumulated funds		
Balance at the beginning of the year	77,400,922	73,001,116
Net surplus for the year	8,587,420	4,399,806
Balance at the end of the year	<u>85,988,342</u>	<u>77,400,922</u>
Available-for-sale revaluation reserve		
Balance at the beginning of the year	34,183,055	33,016,994
Unrealised (loss)/gain on available-for-sale investment	(7,414,202)	1,166,061
Balance at the end of the year	<u>26,768,853</u>	<u>34,183,055</u>

**METROPOLITAN MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2008**

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.

OUTSTANDING CLAIMS PROVISION

	2008	2007
	R	R
Provision for outstanding claims	4,633,135	4,088,666
Provision arising from liability adequacy test	-	-
	<u>4,633,135</u>	<u>4,088,666</u>
Analysis of movements in outstanding claims		
Balance at the beginning of the year	4,088,666	3,672,875
Payments in respect of the prior year	(3,612,793)	(3,813,585)
Over/(under) provision in respect of the prior year	475,873	(140,710)
Movement in outstanding claims provision	4,157,262	4,229,376
Provision at the end of the year	<u>4,633,135</u>	<u>4,088,666</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 claim and ultimate claim numbers for each benefit year based upon observed development of earlier years and expected loss ratios. Runoff 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.

**METROPOLITAN MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)**

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. 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 dependents; 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 runoff 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.

- 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 are 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:

	2008	2007
Claims outstanding for services rendered in:	%	%
– December	9	12
– November	4	4
– October	2	2
– September	1	1
– August and prior	0.7	0.5

	2008	2007
The impact of the sensitivity on these assumptions are illustrated below:	R	R
– Effect of a 1 percentage point change in assumptions	448,284	423,725
– Effect of a 2 percentage point change in assumptions	906,104	856,465
– Effect of a 3 percentage point change in assumptions	1,373,827	1,298,497

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 balance sheet is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions that could differ when claims arise.

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.

METROPOLITAN MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

2008	Classic	Premier	Total
	R	R	R
Contribution income	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
Gross healthcare result	8,454,623	(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
Net healthcare result	6,637,279	(9,295,733)	(2,658,454)
Investment and other income	1,120,315	10,458,323	11,578,638
Other expenditure	(31,931)	(300,833)	(332,764)
Net surplus for the year	7,671,754	861,757	8,587,420
2007			
Contribution income	4,209,123	96,432,285	100,641,408
Net claims incurred	(886,599)	(97,262,447)	(98,149,046)
Claims incurred	(896,467)	(97,421,139)	(98,317,606)
Third-party claim recoveries	9,868	158,692	168,560
Gross healthcare result	3,322,524	(830,162)	2,492,362
Administration expenses	(482,038)	(7,248,763)	(7,730,801)
Managed care: Management services	(129,660)	(1,702,593)	(1,832,253)
Net impairment (losses)/gains on healthcare receivables	(774)	60	(714)
Net healthcare result	2,710,052	(9,781,458)	(7,071,406)
Investment and other income	497,777	11,301,432	11,799,209
Asset management fees	(13,718)	(314,279)	(327,997)
Net surplus for the year	3,194,111	1,205,695	4,399,806

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 SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

	2008	2007
	R	R
REALISED PROFITS AND LOSSES ON INVESTMENT		
Available-for-sale investment	10,891,465	11,211,481
— Interest income	6,695,213	5,049,510
— Dividends	1,939,524	1,432,555
— Rental income	747,971	1,001,188
— Realised gains on available-for-sale investment	1,508,757	3,728,228
Cash and cash equivalents – interest income	624,059	547,881
	<u>11,515,524</u>	<u>11,759,362</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.

	2008	2007
	R	R
Income statement		
Contributions received (key management personnel)	339,483	319,274
Claims incurred (key management personnel)	299,495	329,214
Asset managers' fee	332,764	327,997
Administration fees	8,010,193	7,067,045
Managed care fees	2,199,959	1,832,253

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

**METROPOLITAN MEDICAL SCHEME
NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)**

Trustees and other committee members are related parties to the Scheme.

	2008	2007
	R	R
Trustee attendance fees		
JJ van der Merwe	8,000	4,600
	<u>8,000</u>	<u>4,600</u>
Audit committee attendance fees		
P Scannell	4,000	2,000
A Visagie	3,000	2,000
J Wassung	4,000	1,000
	<u>11,000</u>	<u>5,000</u>
Balance sheet		
Investment	109,508,074	110,363,575

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 2008, the Scheme has a contingent asset to the value of R1,476,359 (2007: R1,621,094). 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 2008 financial year. Income will be recognised, as and when the recoveries are paid over to the Scheme. In 2008 the Scheme recovered R155,295 (2007: R168,560) from the RAF.

**METROPOLITAN MEDICAL SCHEME
VOTE OF APPRECIATION**

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.