



**NOTICE IS HEREBY GIVEN THAT THE SEVENTY-SECOND ANNUAL GENERAL MEETING OF BP MEDICAL AID SOCIETY WILL BE HELD ON TUESDAY, 26 MAY 2009, AT 10:30 IN MEETING ROOM NO 8, BP BUILDING, 10 JUNCTION AVENUE, PARKTOWN, JOHANNESBURG.**

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**AGENDA**

1. Opening and welcome
2. Apologies
3. To adopt the Minutes of the Annual General Meeting held on Tuesday, 27 May 2008
4. To adopt the Annual Report of the Chairman of the Board for the year ended 31 December 2008
5. To adopt the Financial Statements for the year ended 31 December 2008
6. To note the Member-elected and Employer-appointed Trustees for the ensuing year
7. To note the composition of the Disputes Committee for the ensuing year
8. To note the appointment of the Auditors for the ensuing year
9. To report back on matters raised by members at the 2008 Annual General Meeting
10. To transact any other business of which notice was given to the Principal Officer by 26 May 2009

By order of the Board

**ILSE HARTLIEF (NÉE NIEMIETZ)**  
PRINCIPAL OFFICER

**BP MEDICAL AID SOCIETY  
CHAIRMAN'S REPORT FOR THE YEAR 2009**

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Once again, the past year has been filled with numerous challenges for our Society, and indeed for all players involved in the healthcare industry.

Despite the many challenges facing our Society and its Board, we are pleased to report that our Society maintained its strong financial position during the past financial year ending on 31 December 2008. This has resulted in keeping contribution increases to a minimum.

The Board of Trustees recognises the need to ensure the future sustainability of the Society, as its fundamental obligation is towards protecting members' interests.

At a time of increasing global financial uncertainty and shrinking workforces, our Society continues to remain vulnerable to the rising cost of claims resulting from an ageing group of beneficiaries.

In addition, the industry continues to face increases in costs. These have been brought about by the introduction of new clinical and surgical technology, the advent of very expensive medicines, such as for the biological treatment of rheumatoid arthritis, and the increasing burden of new regulations and legislation. These will continue to impact on members, who may themselves be struggling to understand the complexity of sustainable healthcare provision, as pronouncements relating to the introduction of a National Health Insurance for South Africa gain momentum.

The Board is mindful of all these matters and remains confident that our Society will meet these and all such future challenges to ensure our Society's ongoing sustainability in order to meet the healthcare needs of members in terms of the rules.

We are mindful and grateful that the sustainability of our Society is inextricably linked to the financial support of BP Southern Africa as our current and former Employer.

In terms of BPSA's contractual commitment to such employees and our Society, BPSA continues to subsidise employees and continuation members and provides, inter alia, for a continuing financial commitment towards meeting the claims costs of continuation members and those persons suffering from HIV & AIDS.

**Communication**

Quarterly newsletters were sent to members during 2008, keeping the membership abreast of changes in our Society. Where space has allowed, we have also tried to incorporate articles of interest that may not necessarily relate to the Society itself, but rather focus on more general health issues.

A detailed communication was also sent to all members advising them of the benefit enhancements for 2009, along with a pocket guide detailing the various benefit categories and guidelines for some of our managed healthcare initiatives, which included registration on certain programmes and the obtaining of pre-authorisation prior to hospitalisation.

Benefit design and management are extremely complex. We accept that it is not possible to meet the wishes of all members and their dependants and still manage our Society within the limited and prudently managed budget set by the Board of Trustees.

However, having said this, should you feel that there are improvements that could be made, or if you have particular needs that are not being met, or even if you are unhappy with any decisions, we would welcome your input, feedback and suggestions.

Please submit these in writing to the Principal Officer.

**Financial results**

The audited financial statements are included in this communication and form the subject of a separate agenda item. The results of sound financial disciplines and careful budgeting are evidenced by these accounts and the auditor's report.

Once again, high solvency ratios assure us of the financial stability of our Society. These reserves are well in excess of the legislated targets and the healthy returns thereon can be attributed to well-managed investment strategies.

**BP MEDICAL AID SOCIETY  
CHAIRMAN'S REPORT FOR THE YEAR 2009 (CONTINUED)**

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**Contributions**

Contributions were increased by 13.5% on 1 April 2009. These increases were determined by taking into account the long-term projected claims expenditure of our Society, along with the projected returns on investments, as well as the increases that both employees and pensioners would be receiving. A lower increase in contributions this year would have necessitated a higher increase in future years.

The salary bands on which contributions are determined have been increased by 10%, in line with inflation, to minimise the impact of "bracket creep" on members as far as possible.

**Industry developments**

The Department of Health published an increase in the National Health Reference Price List rate of 10.7% on average in December 2008. This amounts to a 2% increase from their previously published level of 8.7% for 2009. This increase was taken into account by the Board of Trustees during its planning for the 2009 contribution increases.

The Health Professions Council of South Africa proposed that general practitioners and specialists could still charge in excess of the rates paid by our Society (the National Health Reference Price List rate), but they would need to provide a reason for doing so. They are also required to obtain the member's written consent before providing the service, unless it is an emergency.

Currently, dispensing doctors are limited to charging a fixed fee of 16%/R16 for items costing more than R100. This means that if they dispense medication costing R100 or more they can only recoup R16. The dispensing fee proposal is to increase the dispensing fee percentage from 16% to 30%. A Rand cap is still to be agreed upon.

For some time pharmacists' dispensing fees have not been regulated, enabling them to determine fees at their own discretion. Litigation between pharmacists and the Department of Health has recently been suspended after their meeting with Ms Hogan, the new Health Minister. The industry is expecting to hear the outcome of the negotiations very soon.

Legislation has been passed recently allowing pharmaceutical manufacturers to increase their product prices by up to 13.2% (i.e. an increase to the Single Exit Price or SEP). This increase can take effect anytime up to September 2009, causing medicine prices to fluctuate until then.

The Board of Trustees is working hard to ensure that the interests of members are handled with care during this time of change.

For this purpose a medicine formulary (list of prescribed medicines) has been put in place. The medicine on the formulary is fully covered. If you choose medicine from the formulary, you will not have to make a co-payment. Please keep in mind that while you are also free to use medicines that do not appear on the formulary, such purchases may be subject to a co-payment.

In the current environment of fluctuating medicine prices, the size of co-payments could also change from month to month as medicine manufacturers establish new price levels in the market.

As ever, it would be prudent to engage with your healthcare team and confirm which formulary medicines are appropriate for you.

**A note of thanks**

We continue to live in - and be blessed by - the challenges of interesting times. It remains a privilege to be associated with so many persons who give so willingly and supportively of their time, talents and energy to seek to make the BP Medical Aid Society one of the very best medical schemes for our South African and Namibian members.

We are so thankful to them and for this reason we wish to take this opportunity to express our heartfelt appreciation to:

- our Trustees, Albert, Bebe, Doreanne, Mike, Pradeep and Vusi, as well as to the Principal Officer, Ilse, all of whom devote so much of their time, skill and energy to the affairs of our Society;
- the members of our Society for the steps they have taken to better manage their health and well-being during the past year;

**BP MEDICAL AID SOCIETY  
CHAIRMAN'S REPORT FOR THE YEAR 2009 (CONTINUED)**

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- our medical advisor, Dr Shuaib Manjra, for his continued passion, dedication and commitment, as well as his clinical guidance, "steering" role and wisdom as Chairman of the Clinical Sub-committee;
- the members of our various Committees and Sub-committees - Audit, Clinical, Legal and Contractual, Investments and Disputes - and importantly Mr Evert Rood in his capacity as Chairman of the Audit Committee, as well as Patricia Dourans and Elsabet Bester, our other independent members of the Audit Committee;
- our service providers:
  - Metropolitan Health Group (MHG), our Administrator;
  - Alexander Forbes, our healthcare consultants;
  - Qualsa, our managed healthcare providers;
  - the Medi-Clinic Hospital Group, Chronicare, Preferred Provider Negotiators (PPN) and the Melomed Hospital Group, our designated service providers (DSPs) and preferred providers;
  - Ernst & Young Inc, our external auditors.
- our sponsoring employer, BP Southern Africa (Pty) Ltd, for the provision of the company-appointed Trustees, the medical advisor and the Principal Officer, as well as its commitment to meeting the costs relating to the employment of such persons whilst engaged in the affairs of our Society, and of course for its continued very generous financial support.

We wish you and your families the very best of health and well-being for the coming year.



**JOHN BUSH**  
CHAIRMAN: BP MEDICAL AID SOCIETY

**BP MEDICAL AID SOCIETY  
ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2008**

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

The Trustees are responsible for the preparation, integrity and fair presentation of the Annual Financial Statements of the BP Medical Aid Society. The financial statements presented on pages 5 to 41 have been prepared in accordance with International Financial Reporting Standards (IFRS) and include amounts based on judgments and estimates made by management.

The Trustees consider that in preparing the Annual Financial Statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates.

The Trustees are satisfied that the information contained in the Annual Financial Statements fairly presents the results of operations for the year and the financial position of the Society at year end. The Trustees are also responsible for the preparation of the other information included in the annual report and are responsible for both its accuracy and its consistency with the financial statements.

The Trustees have responsibility for ensuring that accounting records are kept. The accounting records should disclose with reasonable accuracy the financial position of the Society, which enables the Trustees to ensure that the Annual Financial Statements comply with the relevant legislation.

The BP Medical Aid Society operated in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that the assets are safeguarded and the risks facing the business are being controlled.

The going concern basis has been adopted in preparing the Annual Financial Statements. The Trustees have no reason to believe that the Society will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These Annual Financial Statements support the viability of the Society.

The Society's external auditors, Ernst & Young Inc, audited the financial statements in terms of International Standards on Auditing, and their report is presented on page 7.

The financial statements were approved by the Board of Trustees on 15 April 2009 and are signed on its behalf by:



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**J Bush**  
Chairman



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**AJ Myburgh**  
Trustee



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**I Hartlief**  
Principal Officer

15 April 2009

**STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES**

The BP Medical Aid Society is committed to the principles and practices of fairness, openness, integrity and accountability in all dealings with its stakeholders. Three Trustees are proposed and elected by the members of the Society, three are appointed by the Employer and one Trustee is appointed by the Trade Unions recognised by the Employer.

**BOARD OF TRUSTEES**

The Trustees meet regularly and monitor the performance of the Administrator. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive.

All Trustees have access to the advice and services of the Principal Officer and, where appropriate, may seek independent professional advice at the expense of the Society.

**INTERNAL CONTROLS**


The Administrator of the Society maintains internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability for its assets adequately. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

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



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**J Bush**  
Chairman



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**AJ Myburgh**  
Trustee



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**I Hartlief**  
Principal Officer

15 April 2009

**BP MEDICAL AID SOCIETY  
ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2008**

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**INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF BP MEDICAL AID SOCIETY**

We have audited the Annual Financial Statements of BP Medical Aid Society, which comprise the Board of Trustees report, the balance sheet as at 31 December 2008, the income statement, the statement of changes in funds and reserves and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 41.

**Trustees' responsibility for the financial statements**

The Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Medical Schemes Act of South Africa 131 of 1998. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

**Auditors' responsibility**

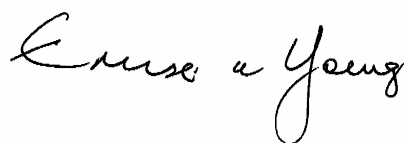
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Society's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustees, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Society as at 31 December 2008, and of the financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Medical Schemes Act of South Africa 131 of 1998.



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**Ernst & Young Inc**  
Registered Auditor

Cape Town  
15 April 2009

**BP MEDICAL AID SOCIETY  
REPORT OF THE BOARD OF TRUSTEES**

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

**Registration number: 1237**

**1. MANAGEMENT**

**1.1 BOARD OF TRUSTEES**

The following persons served on the Board of Trustees during the year under review:

**Employer appointed**

DM Bastiaan	(Appointed: September 2008)
DF Orgill	(Resigned: July 2008)
E Oyegun	
P Parbhoo	

**Member elected**

J Bush	Chairman
MJ Manson-Smith	(Appointed: July 2008)
A Myburgh	
IS Pringle	(Resigned: June 2008)

**Trade Union Representative**

JV Mbedu

**1.2 PRINCIPAL OFFICER**

**I Hartlief**

BP Waterfront	PO Box 6006
Dock Road	Roggebaai
Portwood Ridge	8012
V&A Waterfront	
8002	

**1.3 SECRETARY**

R Palvie

**1.4 REGISTERED OFFICE ADDRESS AND POSTAL ADDRESS**

BP Waterfront	PO Box 6006
Dock Road	Roggebaai
Portwood Ridge	8012
V&A Waterfront	
8002	

Country of registration and domicile: South Africa

**1.5 MEDICAL SCHEME ADMINISTRATOR**

**Metropolitan Health Corporate (Pty) Ltd**

Town Square	PO Box 4313
61 St George's Mall	Cape Town
Cape Town	8000
8001	

Accreditation number: 17

**BP MEDICAL AID SOCIETY  
REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

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**1. MANAGEMENT (CONTINUED)**

**1.6 INVESTMENT MANAGERS**

**Stanlib**

Liberty Centre  
1 Ameshof Street  
Braamfontein  
2001

PO Box 2094  
Johannesburg  
2000

Service provider number: 2409

**1.7 AUDITORS**

**Ernst & Young Inc**

Ernst & Young House  
35 Lower Long Street  
Cape Town  
8000

PO Box 656  
Cape Town  
8000

**1.8 ACTUARIAL CONSULTANTS**

**Alexander Forbes Financial Services Holdings (Pty) Ltd**

61 Katherine Street  
Sandown  
2146

PO Box 787240  
Sandton  
2146

**2. DESCRIPTION OF THE MEDICAL SCHEME**

The BP Medical Aid Society is a not-for-profit restricted membership Society registered in terms of the Medical Schemes Act 131 of 1998. Membership of the Society is open to all employees of BP Southern Africa (Pty) Ltd, former employees subject to qualifying conditions, any other associated employer to whose employees membership has been extended by the Board of Trustees, and to the dependants of such employees.

**2.1 BENEFIT OPTIONS WITHIN THE BP MEDICAL AID SOCIETY**

The BP Medical Aid Society offers only one plan with no options.

**2.2 SAVINGS PLAN**

There is no savings plan.

**2.3 RISK TRANSFER ARRANGEMENTS**

The Society entered into an agreement with Preferred Provider Negotiators (Pty) Ltd (PPN) from January 2005, whereby PPN provides optometric services through a network of contracted providers to the beneficiaries on behalf of the Society.

**2.4 OPERATING ENVIRONMENT**

There have been no significant changes in the Society's operating environment.

**3. INVESTMENT STRATEGY**

The Society's investment objectives are to maximise the return on its investments on a long-term basis at minimal risk. The investment strategy takes into consideration both constraints imposed by legislation and those imposed by the Board of Trustees. The Investment Committee meets regularly to ensure that the Society remains liquid, to review the performance of the asset manager and to ensure compliance with the regulations of the Act.

**BP MEDICAL AID SOCIETY  
REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

**3. INVESTMENT STRATEGY (CONTINUED)**

The Trustees have agreed on a benchmark over a rolling, 24-month period with the Society's asset manager in terms of performance. In addition the asset manager will avoid the loss of capital in any one year.

The underlying assets in the Medical Investment Fund consists of bonds, equities, property, international cash and cash. This strategy 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.

**4. MANAGEMENT OF INSURANCE RISK**

The primary insurance activity carried out by the Society 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 Society's members. As such the Society is exposed to the uncertainty surrounding the timing and severity of claims under the contract between the Society and its members. The Society also has exposure to market risk through its insurance and investment activities.

The Society manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, as well as the monitoring of emerging issues.

The Society 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 risk is that the frequency and severity of claims are greater than expected.

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

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

**5.1 OPERATIONAL STATISTICS**

	<b>2008</b>	<b>2007</b>
Number of members at year end	2,431	2,501
Average number of members for the year	2,473	2,508
Average number of beneficiaries for the year	5,707	5,872
Number of beneficiaries at year end	5,588	5,806
Proportion of dependants at year end	1.30	1.32
Average age of beneficiaries	40	40
Continuation member ratio	48%	47%
Average contributions per member per month (R)	1,916	1,727
Average contributions per beneficiary per month (R)	830	738
Average claims incurred per member per month (R)	2,159	1,964
Average claims incurred per beneficiary per month (R)	935	839
Average administration costs per member per month (R)	125	109
Average managed care: Management services per member per month (R)	31	28
Average accumulated funds per member at 31 December (R)	22,015	19,770
Relevant healthcare expenditure as a percentage of contributions	112.7%	113.7%
Managed care: Management services as a percentage of contributions	1.6%	1.6%
Non-healthcare expenses as a percentage of contributions	6.5%	6.3%
Amounts paid to Administrator (R)	3,408,026	3,170,002
- Administration fees	2,484,479	2,322,885
- Managed care fees	923,547	847,117

**BP MEDICAL AID SOCIETY  
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>2007</b>
Relevant healthcare expenditure per beneficiary per month (R)	935	847
Non-healthcare expenditure per beneficiary per month (R)	55	47
Return on investments as a percentage of investments	1.1%	13.6%

**5.2 RESULTS OF OPERATIONS**

The results of the Society's operations for the year under review and financial position at 31 December 2008 are set out in the Annual Financial Statements. The Trustees believe that no further clarification is required.

**5.3 ACCUMULATED FUNDS RATIO**

	<b>2008</b>	<b>2007</b>
	<b>R</b>	<b>R</b>

The accumulated funds ratio is calculated on the following basis:

Total members' funds per balance sheet	53,999,058	52,234,193
Less: Revaluation reserve (unrealised gain on available-for-sale investment)	-	(2,652,269)
Accumulated funds per Regulation 29	53,999,058	49,581,924
Annual contributions	56,866,397	51,977,320
Accumulated funds ratios:		
Accumulated funds/annual contributions x 100%	94.96%	95.39%

The revaluation reserve at 31 December 2008 is an unrealised loss of R444,711 and does not form part of the accumulated funds ratio calculation.

The Board of Trustees evaluated the unrealised loss at year end and decided not to impair the amount or any part of it, as the loss is due to the current global market volatility. Should the negative revaluation reserve increase substantially and continue for a period longer than 12 months, the Trustees would consider impairment.

**5.4 REVALUATION RESERVE**

The revaluation reserve in the balance sheet reflects the unrealised gains/losses on the Society's investment portfolio in the Stanlib Medical Investment Fund.

**5.5 OUTSTANDING CLAIMS**

Movements on the outstanding claims provision are set out in note 7 to the Annual Financial Statements. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Society.

**6. POST BALANCE SHEET EVENTS**

There has been no events that have occurred subsequent to the end of the accounting period that affect the Annual Financial Statements, which the Trustees consider should be brought to the attention of the members.

**7. CONTINUING FINANCIAL COMMITMENT FROM EMPLOYER**

BP Southern Africa (Pty) Ltd (BPSA) agreed to pay additional amounts to assist in funding the shortfall arising from the ageing membership. These additional amounts are reflected as a continuing financial commitment, as provided for in the agreement between the Society and BPSA dated 22 October 2002. The continued sustainability of the Society is clearly dependent on the continuing financial commitment.

**BP MEDICAL AID SOCIETY  
REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

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**8. FIDELITY COVER**

The Society's Trustees are covered under an Alexander Forbes Risk Services (Pty) Ltd policy underwritten by Camargue Underwriting Managers. On 31 December 2008 the value of the fidelity cover was R10,000,000 (2007: R10,000,000).

**9. ACTUARIAL SERVICES**

The Society's actuaries, Alexander Forbes Financial Services: Healthcare Consultants, have been consulted in the determination of the contributions and benefit levels.

**10. INVESTMENTS IN AND LOANS TO EMPLOYERS OF MEMBERS OF THE SOCIETY AND OTHER RELATED PARTIES**

The Society holds no investments in, and made no loans to, any participating employers of the Society members. Refer to Note 16 to the financial statements for other related party transactions.

**11. AUDIT COMMITTEE**

A representative Audit Committee was appointed and comprises five members of whom two are members of the Board of Trustees:

Mr EJ Rood (independent Chairman), Mr J Bush (Trustee), Mr A Myburgh (Trustee), Ms E Bester (independent member) and Ms P Dourans (independent member). Ms I Hartlief attends meetings in her capacity as the Principal Officer.

The Committee met on three occasions during the course of the year, as follows:

- 1 April 2008
- 12 August 2008
- 4 November 2008.

The Administrator and the external auditors attend all Committee meetings and have unrestricted access to the Chairman 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 Society'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.

**12. INVESTMENT SUB-COMMITTEE**

An Investment Sub-committee was established and is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. This Sub-committee comprises three members.

The Sub-committee comprises: Mr A Myburgh (Chairman - appointed January 2008), Ms DF Orgill (resigned July 2008) and Mr MJ Manson-Smith (appointed July 2008). Ms I Hartlief attends meetings in her capacity as the Principal Officer.

The Sub-committee met on three occasions during the course of the year, as follows:

- 28 January 2008
- 5 May 2008
- 30 October 2008.

The primary responsibility of the Sub-committee is to assist the Board of Trustees in carrying out its duties relating to the investment strategy of the Society.

**13. LEGAL AND CONTRACTUAL SUB-COMMITTEE**

A Legal and Contractual Sub-committee was established and is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. This Sub-committee comprises three members.

**BP MEDICAL AID SOCIETY  
REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

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**13. LEGAL AND CONTRACTUAL SUB-COMMITTEE (CONTINUED)**

The Sub-committee comprises: Mr P Parbhoo (Chairman), Mr J Bush and Ms E Oyegun. Ms I Hartlief attends meetings in her capacity as the Principal Officer.

The Sub-committee met on four occasions during the course of the year, as follows:

- 13 February 2008
- 15 April 2008
- 4 August 2008
- 20 October 2008.

The primary responsibility of the Sub-committee is to assist the Board of Trustees in carrying out its duties relating to legal and contractual matters of the Society.

**14. COMMUNICATIONS SUB-COMMITTEE**

A Communications Sub-committee was established and is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. This Sub-committee comprises five members.

The Sub-committee comprises: Ms E Oyegun (Chairman), Mr P Parbhoo, Mr MJ Manson-Smith (appointed July 2008), Mr IS Pringle (resigned June 2008) and Mr JV Mbedu. Ms I Hartlief attends meetings in her capacity as the Principal Officer.

The Sub-committee met informally when required, but did not meet formally during the course of the year.

The primary responsibility of the Sub-committee is to assist the Board of Trustees in carrying out its duties relating to any communication matters of the Society.

**15. CLINICAL SUB-COMMITTEE**

A Clinical Sub-committee was established and is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. This Sub-committee comprises four members.

The Sub-committee comprises: Dr S Manjra (Chairman and medical advisor), Mr J Bush, Mr P Parbhoo and Mr MJ Manson-Smith (appointed July 2008). Ms I Hartlief attends meetings in her capacity as the Principal Officer.

The Sub-committee met on four occasions during the course of the year, as follows:

- 28 January 2008
- 21 April 2008
- 7 July 2008
- 13 October 2008.

The primary responsibility of the Sub-committee is to assist the Board of Trustees on clinical matters of the Society.

**16. DISPUTES COMMITTEE**

A Disputes Committee was established and is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. This Committee comprises three members.

The Committee comprises: Mr C McClelland (Chairman), Mr K Warnett and Mr A Ngubo.

The Committee did not meet during the year.

The primary responsibility of the Committee is to deal with disputes.

**BP MEDICAL AID SOCIETY  
REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

**17. TRUSTEE MEETING ATTENDANCE**

The following schedule sets out Board of Trustee meeting attendances and attendances by members of the Board and Sub-committees. Trustee remuneration is disclosed in note 11.1 to the Annual Financial Statements.

Trustee/Sub-committee member	Board meetings		Audit Committee		Investment Sub-committee		Legal and Contractual Sub-committee		Communications Sub-committee		Clinical Sub-committee		Disputes Sub-committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
E Bester			3	3										
J Bush	6	6	3	2			4	4			4	3		
DM Bastiaan (appointed September 2008)	1	1												
P Dourans			3	3										
S Manjra (medical advisor)	6	3									4	4		
MJ Manson-Smith (appointed July 2008)	3	3			1	1					2	2		
JV Mbedu	6	4												
C McClelland													-	-
A Myburgh	6	6	3	3	3	3								
A Ngubo													-	-
I Hartlief (Principal Officer)	6	6	3	3	3	3	4	3			4	4		
DF Orgill (resigned July 2008)	3	3			2	1								
E Oyegun	6	6					4	2						
IS Pringle (resigned June 2008)	3	2												
P Parbhoo	6	6					4	4			4	4		
E Rood	1	1	3	3										
K Warnett													-	-

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

*B - Actual number of meetings attended*

**BP MEDICAL AID SOCIETY  
BALANCE SHEET  
as at 31 December 2008**

		<b>2008</b>	<b>2007</b>
<b>ASSETS</b>	<b>Notes</b>	<b>R</b>	<b>R</b>
<b>Non-current assets</b>		49,119,943	49,021,009
Available-for-sale investments	3	49,119,943	49,021,009
<b>Current assets</b>		8,951,364	8,660,035
Trade and other receivables	4	4,010,231	1,890,901
Cash and cash equivalents	5	4,941,133	6,769,134
<b>Total assets</b>		58,071,307	57,681,044
<b>FUNDS AND LIABILITIES</b>			
<b>Members' funds (page 17)</b>		53,999,058	52,234,193
Accumulated funds		54,443,769	49,581,924
Revaluation reserve: Available-for-sale investments		(444,711)	2,652,269
<b>Current liabilities</b>		4,072,249	5,446,851
Trade and other payables	6	565,200	2,109,007
Outstanding claims provision	7	3,507,049	3,337,844
<b>Total funds and liabilities</b>		58,071,307	57,681,044

**BP MEDICAL AID SOCIETY**  
**INCOME STATEMENT**  
for the year ended 31 December 2008

	Notes	2008 R	2007 R
<b>Contribution income</b>	8	56,866,397	51,977,320
<b>Relevant healthcare expenditure</b>		(64,060,112)	(59,033,158)
Net claims incurred		(64,071,785)	(59,096,880)
Claims incurred	9	(64,400,955)	(59,126,328)
Third-party claim recoveries		329,170	29,448
Net income on risk transfer arrangements	9	11,673	63,722
Risk transfer arrangement fees/premiums paid		(1,219,193)	(1,095,148)
Recoveries from risk transfer arrangements		1,230,866	1,158,870
<b>Gross healthcare result</b>		(7,193,715)	(7,055,838)
Managed care: Management services	10	(923,547)	(847,117)
Administration expenses	11	(3,696,436)	(3,286,298)
Net impairment loss	12	(19,915)	(13,108)
<b>Net healthcare result</b>		(11,833,613)	(11,202,361)
<b>Other income</b>		16,695,458	27,914,077
Investment income	13	5,105,611	3,350,285
Realised gain on disposal of available-for-sale investment		-	14,399,251
Continuing financial commitment from Employer	14	11,572,772	10,137,750
Other operating income	14	17,075	26,791
<b>Other expenditure</b>			
Asset management fees	3	-	(130,959)
<b>Net surplus for the year</b>		4,861,845	16,580,757

**BP MEDICAL AID SOCIETY  
STATEMENT OF CHANGES IN FUNDS AND RESERVES  
for the year ended 31 December 2008**

	<b>2008</b>	<b>2007</b>
	<b>R</b>	<b>R</b>
<b>Accumulated funds</b>		
Balance at beginning of year	49,581,924	33,001,167
Net surplus for the year	4,861,845	16,580,757
Balance at end of the year	<u>54,443,769</u>	<u>49,581,924</u>
<b>Revaluation reserve: Available-for-sale investments</b>		
Balance at beginning of year	2,652,269	13,045,300
Unrealised (loss)/gain on remeasurement of available-for-sale investments	(3,096,980)	4,006,220
Realised gain on disposal of available-for-sale investments	-	(14,399,251)
Balance at end of the year	<u>(444,711)</u>	<u>2,652,269</u>
Members' funds	<u>53,999,058</u>	<u>52,234,193</u>

**BP MEDICAL AID SOCIETY**  
**CASH FLOW STATEMENT**  
**for the year ended 31 December 2008**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>Notes</b>	<b>2008</b>	<b>2007</b>
		<b>R</b>	<b>R</b>
Surplus for the year		4,861,845	16,580,757
- Realised gain on disposal of available-for-sale investments		-	(14,399,251)
- Investment income - interest		(3,682,875)	(2,931,687)
- Dividends		(1,422,736)	(418,598)
		<hr/>	<hr/>
Cash flows from operations before working capital changes		(243,766)	(1,168,779)
Working capital changes			
- (Increase)/decrease in trade and other receivables		(2,119,330)	1,236,100
- Increase in provision for outstanding claims		169,205	697,721
- (Decrease)/increase in trade and other payables		(1,543,807)	560,831
		<hr/>	<hr/>
<b>Net cash (outflows)/inflows from operating activities</b>		(3,493,932)	1,325,873
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capitalised interest and dividends		(3,195,914)	(2,090,589)
Proceeds on disposal of available-for-sale investments		-	45,654,534
Additions to available-for-sale investments			(45,654,534)
Investment income - interest		3,682,875	2,931,687
- Dividends		1,422,736	418,598
		<hr/>	<hr/>
<b>Net cash inflows from investing activities</b>		1,909,697	1,259,696
		<hr/>	<hr/>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		(1,828,001)	2,585,569
Cash and cash equivalents at beginning of the year		6,769,134	4,183,565
		<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	5	<u>4,941,133</u>	<u>6,769,134</u>

**BP MEDICAL AID SOCIETY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008**

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**1. PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the financial statements are set out below and are in accordance with International Financial Reporting Standards (IFRS).

The accounting policies adopted are consistent with those of the previous financial year.

**1.1 Basis of preparation**

The financial statements are prepared in accordance with International Financial Reporting Standards on the historical cost basis, 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.

**1.2 Financial instruments**

Financial assets and liabilities are initially recognised on the Society's balance sheet when it becomes a party to the contractual provisions of the instrument.

*Measurement*

Financial instruments are initially measured at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial assets and liabilities.

*Available-for-sale investments*

Investments intended to be held for an indefinite period of time, which may be sold in response to needs in liquidity or changes in market conditions, are classified as available for sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

All purchases and sales of investments are recognised on the trade date, which is the date that the Society commits to purchase or sell the asset. Cost of purchases includes transaction costs. Available-for-sale investments are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of the available-for-sale investments are included in the revaluation reserve and are not taken to the income statement. Once the available-for-sale investment is sold, the realised fair value gain or loss on the changes in the fair value of the available-for-sale investment is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market prices at balance sheet date.

*Trade and other receivables*

Trade and other receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. An appropriate allowance for estimated irrecoverable amounts is recognised in the income statement when there is objective evidence that the asset is impaired. Objective evidence would include the probability of insolvency or significant financial difficulties of the debtor. This allowance is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow as discounted at the effective interest rate compounded at initial recognition. The carrying amount of the asset is reduced by use of an allowance account. Permanent impairments are written off to the income statement when identified.

Short duration receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest would be significant.

**1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**1.2 Financial instruments (continued)**

*Cash and cash equivalents*

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

*Financial liabilities*

Financial liabilities are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest method.

*Offsetting of financial instruments*

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

**1.3 Derecognition of financial assets and liabilities**

*Financial assets*

A financial asset is derecognised when:

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

*Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

**1.4 Impairment losses**

The carrying amounts of the Society's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Objective evidence, which would indicate an impairment, would include significant or prolonged decline in the fair value of the investment below its cost. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

*Calculation of recoverable amount*

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit and loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit and loss.

The recoverable amount of the Society's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

**1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**1.4 Impairment losses (continued)**

*Reversals of impairment*

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss recognised as a loss with regard to an investment in an equity instrument classified as available-for-sale is not reversed through profit and loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit and loss.

Impairment losses are recognised directly against the financial asset and not through an allowance account.

**1.5 Provisions**

Provisions are recognised when the Society has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

*Outstanding claims*

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

The Society does not discount its provision for outstanding claims on the basis that claims must be submitted within four months of the medical event.

**1.6 Insurance contracts**

Contracts under which the Society accepts significant insurance risk from another party (the member) by agreeing to compensate the member or other beneficiary if a specified uncertain future event (the insured event) adversely affects the member or other beneficiary, are classified as insurance contracts.

The contracts issued compensate the Society's members for healthcare expenses incurred.

**1.7 Contributions**

Contributions are received monthly, and are brought into account on an accrual basis when their collection in terms of the insurance contract is reasonably certain. The earned portion of contributions received is recognised as revenue. Contributions are earned from the date of attachment risk over the indemnity period on a straight-line basis.

**1.8 Relevant healthcare expenditure**

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

**1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**1.8 Relevant healthcare expenditure (continued)**

**Claims incurred**

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

Net claims incurred comprise:

- claims submitted and accrued for services rendered during the year; and
- claims for services rendered during the previous year not included in the outstanding claims provisions for that year;
- claims settled in terms of risk transfer arrangements; and
- movement in the outstanding claims provision.

Claims incurred relating to risk transfer arrangements are calculated by applying the National Health Reference Price List (NHRPL) to the different categories of services provided by the capitation provider.

Anticipated recoveries under risk transfer arrangements are disclosed separately as assets and are assessed in a manner similar to the assessment of the outstanding claims provision and claims reported not yet paid.

**1.9 Liabilities and related assets under liability adequacy test**

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

**1.10 Risk transfer arrangements**

Risk transfer premiums are recognised as an expense over the indemnity period on a straight-line basis.

Risk transfer premiums and benefits reimbursed are presented in the income statement and balance sheet on a gross basis. Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance. Amounts recoverable under such contracts are recognised in the same year as the related claim.

Assets relating to risk transfer arrangements include balances due under risk transfer arrangements for outstanding claims provisions and claims reported not yet paid. Amounts recoverable under risk transfer arrangements are estimated in a manner consistent with the outstanding claims provisions, claims reported not yet paid and settled claims associated with the risk transfer arrangement.

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

**1.11 Managed care: Management services expenses**

These expenses represent internal expenditure and the amounts paid or payable to the third-party Administrator, related parties and other third parties for managing the utilisation, costs and quality of healthcare services provided to the members of the Society.

**1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**1.12 Reimbursements from the Road Accident Fund (RAF)**

The Society grants assistance to its members in defraying expenditure incurred in connection with the rendering of any relevant health service. Such expenditure may be in connection with a claim that is also made to the RAF, administered in terms of the RAF Act No 56 of 1996. If the member is reimbursed by the RAF, he/she is obliged contractually to cede that payment to the Society to the extent that he/she has already been compensated.

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

**1.13 Investment income**

**Interest and dividend income**

Interest is recognised on a yield to maturity basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Society. Dividend income is recognised when the right to receive payments is established.

**1.14 Functional and presentation currency**

Items included in the financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("the functional currency"). The financial statements are presented in South African Rand ("the presentation currency"), which is the functional currency of the Society.

**1.15 Taxation**

The Society is registered under the Medical Schemes Act 131 of 1998. It therefore falls within the definition of a benefit fund as defined in Section 1 of the Income Tax Act. The receipts and accruals of the Society are exempt from taxation under Section 10(1)(d) of the Income Tax Act.

**1.16 Continuing financial commitment**

BP Southern Africa (Pty) Ltd (BPSA) agreed to pay additional amounts to assist in funding the shortfall arising from the ageing membership and HIV & AIDS. This amount is disclosed under other income in the income statement.

**2. FORTHCOMING REQUIREMENTS**

**Amendments to standards relevant to the Society's operations**

At the date of authorisation of these financial statements, the following Standards, which are relevant to the Society, were in issue but not yet effective, and have not been early adopted in the financial statements:

- IAS 1 (AC 101) Presentation of Financial Statements (Revised)
- Effective date: 1 January 2009.

Effect: The presentation of the income statement, as well as the statement of funds and reserves, will be affected. The income statement will be renamed as the statement of comprehensive income.

- IFRS 7 Financial Instruments: Disclosures
- Effective date: 1 January 2009.

**BP MEDICAL AID SOCIETY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008 (continued)**

**2. FORTHCOMING REQUIREMENTS (CONTINUED)**

**Amendments to standards relevant to the Society's operations (continued)**

Effect: There will be amendments to fair value and liquidity risk disclosures.

The Society intends to adopt the above amendments on their effective dates. The application of these amendments on future financial reporting periods will not have a significant impact on the Society's reported results, financial position or cash flow.

	<b>2008</b>	<b>2007</b>
	<b>R</b>	<b>R</b>
<b>3. AVAILABLE-FOR-SALE INVESTMENTS</b>		
Fair value at the beginning of the year	49,021,009	42,924,200
Additions	-	45,654,534
Capitalised interest and dividends	3,195,914	2,090,589
Disposal of available-for-sale investments	-	(45,654,534)
Unrealised (loss)/gain on available-for-sale investments	(3,096,980)	4,006,220
	<u>49,119,943</u>	<u>49,021,009</u>

The investment is unitised and is part of a collective investment scheme. The underlying assets are not registered in the name of the Society. The underlying assets consist of:

Bonds and debentures	12,997,137	5,735,460
Property	5,029,882	3,823,640
Equities with primary listings on the JSE	12,152,274	19,245,647
Foreign equity	1,915,678	-
Local cash	12,063,858	16,407,329
Foreign cash	4,961,114	3,808,933
	<u>49,119,943</u>	<u>49,021,009</u>

The investment has no fixed maturity. The fair value of the investment is based on its market value as at 31 December 2008.

During the 2007 financial year the Society changed the available-for-sale investment from the Stanlib Absolute Return Fund to The Stanlib Medical Investment Fund. The Stanlib Medical Investment Fund is a unitised fund and the asset manager's fee is built into the unit price. This provides clarification for the decrease in asset manager's fees, as disclosed on the face of the income statement.

The foreign equity in the portfolio arose due to the unbundling of the British American Tobacco (BTI) shares out of the Remgro and Richemont shares. The Medical Schemes Act does not allow for investments in foreign equities and therefore the asset manager subsequently sold off the foreign equities. A register of investments is available for inspection at the registered office of the Society.

**4. AVAILABLE-FOR-SALE INVESTMENTS**

<b>Insurance receivables</b>	1,602,043	1,114,848
Contributions outstanding	1,069,648	756,830
Amounts owing by members and service providers	6,799	38,307
Continuing financial commitment	366,474	-
Income receivable - HIV & AIDS	159,122	319,711

**BP MEDICAL AID SOCIETY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008 (continued)**

	<b>2008</b>	<b>2007</b>
	<b>R</b>	<b>R</b>
<b>4. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)</b>		
Less:		
Provision for impairment losses on insurance receivables	(43,594)	(23,689)
Balance at the beginning of the year	(23,689)	(9,383)
Provision made during the year	(19,915)	(13,108)
Amounts reversed/(utilised) during the year	10	(1,198)
<b>Other receivables</b>	2,220,348	753,453
Interest receivables	2,220,348	753,453
<b>Risk transfer arrangements</b>	231,434	46,289
Share of outstanding claims provision	231,434	46,289
	<u>4,010,231</u>	<u>1,890,901</u>
<b>Analysis of movements in respect of risk transfer arrangements</b>		
Balance at the beginning of the year	46,289	14,314
Payment in respect of prior year	(46,289)	(49,517)
Under provision in prior year	-	(35,203)
Adjustments for current year	231,434	81,492
Balance at end of year	<u>231,434</u>	<u>46,289</u>
The carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets.		
<b>5. CASH AND CASH EQUIVALENTS</b>		
Call accounts	4,330,000	2,400,000
Current accounts	611,133	4,369,134
Cash and cash equivalents per cash flow statement	<u>4,941,133</u>	<u>6,769,134</u>
The weighted average effective interest rate on short-term bank deposits was 11.62% (2007: 9.2%).		
At 31 December the carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets.		
<b>6. TRADE AND OTHER PAYABLES</b>		
<b>Insurance liabilities</b>		
Reported claims not yet paid	-	1,645,918
Debtors with credit balances	148,982	38,784
<b>Financial liabilities</b>		
Accrued expenses	151,204	139,617
Provision for audit fees	265,014	284,688
	<u>565,200</u>	<u>2,109,007</u>

**BP MEDICAL AID SOCIETY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008 (continued)**

**6. TRADE AND OTHER PAYABLES (CONTINUED)**

At 31 December the carrying amounts of accounts payable approximate their fair values due to the short-term maturities of these liabilities.

	<b>2008</b>	<b>2007</b>
	<b>R</b>	<b>R</b>
<b>Reported claims not yet paid</b>		
Balance at the beginning of the year	1,645,918	1,117,670
Payments made	(1,645,918)	(1,117,670)
Movement	-	1,645,918
Balance at the end of the year	<u>-</u>	<u>1,645,918</u>

**7. OUTSTANDING CLAIMS PROVISION**

**Not covered by risk transfer arrangements**

Provision for outstanding claims	3,275,615	3,291,555
Provision arising from liability adequacy test	-	-
	<u>3,275,615</u>	<u>3,291,555</u>

**Analysis of movements in outstanding claims**

Balance at beginning of year	3,291,555	2,625,809
Payments in respect of prior year	(3,135,463)	(2,319,052)
Over provision in the prior year	156,092	306,757
Over provision in respect of prior year written back	(156,092)	(306,757)
Adjustment for current year	3,275,615	3,291,555
Provision at end of year (note 9)	<u>3,275,615</u>	<u>3,291,555</u>

**Covered by risk transfer arrangements**

Provision for outstanding claims for PPN	231,434	46,289
Provision arising from liability adequacy test	-	-
	<u>231,434</u>	<u>46,289</u>

**Analysis of movements in outstanding claims**

Balance at beginning of year	46,289	14,314
Payments in respect of prior year	(46,289)	(49,517)
Under provision in the prior year	-	(35,203)
Adjustment for current year	231,434	81,492
Provision at end of year (note 9)	<u>231,434</u>	<u>46,289</u>

Total outstanding claims provision	<u>3,507,049</u>	<u>3,337,844</u>
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## **7. OUTSTANDING CLAIMS PROVISION (CONTINUED)**

### **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. 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.

Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances, information available from managed care: healthcare 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 is difficult to estimate. The provision estimation difficulties also differ by category of claims (i.e. in hospital and chronic medication benefits) 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. 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.

The actual method used is consistent with prior years, and considers 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 Society's liabilities if an incorrect assumption is used.

- The actual demographics of the Society 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.

**BP MEDICAL AID SOCIETY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008 (continued)**

**7. OUTSTANDING CLAIMS PROVISION (CONTINUED)**

**Assumptions (continued)**

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

	<b>2008</b>	<b>2007</b>
Claims outstanding for services rendered in:	%	%
December	10	10
November	5	4
October	3	2
September	2	1
August and prior	1	0.5

The impact of the sensitivity of these percentages are set out below:

	<b>2008</b>	<b>2007</b>
	R	R
Effect of a 1% increase in change in assumptions	269,429	246,549
Effect of a 2% increase in change in assumptions	544,613	498,318
Effect of a 3% increase in change in assumptions	825,736	755,471

The Society 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, which could differ when claims arise.

**8. CONTRIBUTION INCOME**

Contributions	<u>56,866,397</u>	<u>51,977,320</u>
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**9. RELEVANT HEALTHCARE EXPENDITURE**

**Claims incurred, excluding claims incurred in respect of risk transfer arrangements**

Current year claims	60,544,833	55,178,787
Movement in outstanding claims provision	3,119,523	2,984,798
Over provision in prior year (note 7)	(156,092)	(306,757)
Adjustment for current year (note 7)	3,275,615	3,291,555
	<u>63,664,356</u>	<u>58,163,585</u>

Less:

Discounts received on claims	(494,267)	(196,127)
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Claims incurred, excluding claims incurred in respect of risk transfer arrangements (note 21)

<u>63,170,089</u>	<u>57,967,458</u>
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**Claims incurred in respect of risk transfer arrangements**

Current year claims	999,432	1,077,378
Movement in outstanding claims provision	231,434	81,492
Over provision in prior year (note 7)	-	35,203
Adjustment for current year (note 7)	231,434	46,289

<u>1,230,866</u>	<u>1,158,870</u>
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Claims incurred per the income statement

<u>64,400,955</u>	<u>59,126,328</u>
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**BP MEDICAL AID SOCIETY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008 (continued)**

<b>9. RELEVANT HEALTHCARE EXPENDITURE (CONTINUED)</b>	<b>2008</b>	<b>2007</b>
	<b>R</b>	<b>R</b>
<b>Net income on risk transfer arrangements</b>		
Premiums/fees paid	1,219,193	1,095,148
Recoveries	1,230,866	1,158,870
Net income per the income statement	<u>11,673</u>	<u>63,722</u>

The Society entered into a risk transfer agreement with Preferred Provider Negotiators (Pty) Ltd (PPN) in January 2005, whereby PPN provides optometric services through a network of contracted providers to the beneficiaries on behalf of the Society.

PPN procures the provision of the optometric services by the participating providers to the beneficiaries of the Society, process and pay claims received in respect of optometric services rendered by participating and non-participating providers to the beneficiaries and the Society pays a fixed fee in respect thereof.

**10. MANAGED CARE: MANAGEMENT SERVICES**

Hospital management programme	335,081	313,411
Chronic medication programme	262,915	245,981
HIV & AIDS programme	145,982	119,839
Oncology programme	62,341	58,141
Prescribed minimum benefits programme	117,228	109,745
	<u>923,547</u>	<u>847,117</u>

**11. ADMINISTRATION EXPENSES**

Total Trustees/Committee members' remuneration and related costs	194,042	141,823
Administrator's fees	2,484,479	2,322,885
Association fees	36,164	32,553
Audit fees	333,833	283,982
- Prior year over provision	-	(706)
- Current year audit services	333,833	284,688
Fidelity cover	14,963	18,150
Consulting fees - Alexander Forbes	264,624	263,366
Bank charges	83,188	81,792
BHF subscriptions	17,123	16,827
Telephone	19,156	19,482
Printing and postage	178,546	62,366
Secretarial services	3,750	4,350
Travelling and entertainment	33,596	38,722
Legal fees	13,338	-
Health education	19,634	-
	<u>3,696,436</u>	<u>3,286,298</u>

**BP MEDICAL AID SOCIETY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008 (continued)**

**11. ADMINISTRATION EXPENSES (CONTINUED)**

**11.1 Total Trustees/Committee members' remuneration and related costs**

	Conference fees	Services as Trustee	Travelling and accommodation	Audit Committee attendance	Total
<b>31 December 2008</b>	R	R	R	R	R
Mr AJ Myburgh	-	50,496	-	-	50,496
Mr J Bush	-	63,120	2,399	-	65,519
Ms E Bester	-	-	-	5,951	5,951
Mr EJ Rood	-	-	-	31,706	31,706
Mr IS Pringle	-	-	4,896	-	4,896
Mr JV Mbedu	-	-	7,048	-	7,048
Mr MJ Manson-Smith	-	26,496	-	-	26,496
Ms I Hartlief (Principal Officer)	-	-	1,930	-	1,930
	-	140,112	16,273	37,657	194,042

	Conference fees	Services as Trustee	Travelling and accommodation	Audit Committee attendance	Total
<b>31 December 2007</b>	R	R	R	R	R
Mr AJ Myburgh	-	43,620	100	-	43,720
Mr J Bush	-	49,620	1,427	-	51,047
Ms E Bester	-	-	-	5,412	5,412
Mr EJ Rood	-	-	-	20,250	20,250
Mr IS Pringle	-	-	4,545	-	4,545
Mr JV Mbedu	-	-	3,108	-	3,108
Ms I Hartlief (Principal Officer)	1,243	-	12,498	-	13,741
	1,243	93,240	21,678	25,662	141,823

**12. NET IMPAIRMENT LOSSES**

	<b>2008</b>	<b>2007</b>
	R	R
<b>Trade and other receivables</b>		
Contributions that are not collectable	(27,567)	(12,619)
Movement in provision	(27,567)	(12,619)
Written off	-	-
Members' and service providers' portions that are not recoverable	6,551	(4,647)
Movement in provision	7,663	(1,687)
Written off	(1,112)	(2,960)
Less:		
Previous impairment losses recovered	1,101	4,158
	(19,915)	(13,108)

**BP MEDICAL AID SOCIETY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008 (continued)**

<b>13. INVESTMENT INCOME</b>	<b>2008</b>	<b>2007</b>
	<b>R</b>	<b>R</b>
Available-for-sale financial assets - interest income	3,235,271	2,519,236
Available-for-sale financial assets - dividend income	1,422,736	418,598
Cash and cash equivalents interest income	447,604	412,451
	<u>5,105,611</u>	<u>3,350,285</u>
<b>14. OTHER OPERATING INCOME</b>		
Continuing financial commitment from employer		
Continuation members	10,936,579	9,520,194
HIV & AIDS	636,193	617,556
	<u>11,572,772</u>	<u>10,137,750</u>
Stale cheques written back older than three years	17,075	26,791
	<u>17,075</u>	<u>26,791</u>

**15. POST BALANCE SHEET EVENTS**

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

**16. RELATED PARTY TRANSACTIONS**

**Parties with significant influence over the Society**

The Employer, *BP Southern Africa (Pty) Ltd*, has significant influence over the Society, as it has a continuing financial commitment to the Society and also appoints three Trustees, but does not control the Society.

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

*Alexander Forbes Financial Services Holdings (Pty) Ltd* has significant influence over the Society, as they provide financial and operational information on which policy decisions are based, but does not control the Society. Alexander Forbes provides consulting and actuarial services.

**Key management personnel and their close family members**

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

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

**BP MEDICAL AID SOCIETY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008 (continued)**

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**16. RELATED PARTY TRANSACTIONS (CONTINUED)**

**Transactions with related parties**

	<b>2008</b>	<b>2007</b>
	<b>R</b>	<b>R</b>
<b>Income statement</b>		
Gross contributions received (key personnel)	221,712	227,380
Claims incurred (key personnel)	822,166	557,122
Ex-gratia payments (key personnel)	-	583
Continuing financial commitment from Employer	10,936,579	10,137,750
Administration fees	2,484,479	2,322,885
Managed care fees	923,547	847,117
Consulting fees: Alexander Forbes	264,624	263,366
<b>Balance sheet</b>		
Consulting fees: Alexander Forbes due	22,052	22,052
<b>Compensation to key management personnel</b>		
Short-term benefits	194,042	141,823

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

**Contributions received (key personnel)**

This constitutes the contributions paid by related parties as members of the Society in their individual capacities. All contributions were at the same terms as applicable to other members.

**Claims incurred (key personnel)**

This constitutes amounts claimed by related parties in their individual capacities as members of the Society. All claims were paid out in terms of the rules of the Society, as applicable to other members.

**Administration fees**

The administration agreement is in terms of the rules of the Society 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 fees**

The managed care agreement is in terms of the rules of the Society 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.

**17. GUARANTEES AND COMMITMENTS**

The Society has not given or received any guarantees or commitments as at 31 December 2008.

**18. CONTINGENT ASSET**

As at 31 December 2008 the Society had pending claims submitted to the Road Accident Fund (RAF) for assessment. This will only be accounted for when an amount is certain to be received from RAF. The value at year end amounted to R1,802,483 (2007: R2,036,998).

**BP MEDICAL AID SOCIETY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008 (continued)**

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**19. CONTINGENT LIABILITIES**

There were no potential liabilities contingent on the outcome of litigations, claims, guarantees, suretyships or alike at 31 December 2008.

**20. FINANCIAL RISK MANAGEMENT REPORT**

The following summary represents the major asset classifications held by the Society, which are exposed to the financial risks as discussed:

**Asset allocation summary**

	<b>2008</b>	<b>2007</b>
	<b>R</b>	<b>R</b>
Available-for-sale investments (note 3)	49,119,943	49,021,009
Cash and cash equivalents (note 5)	4,941,133	6,769,134
Trade and other receivables (note 4)	4,010,231	1,890,901
	<u>58,071,307</u>	<u>57,681,044</u>

The Society is exposed to a range of financial risks through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk is that the Society's investment performance is not sufficient to maintain the current reserve ratio, or that the Society should increase member contributions due to insufficient investment performance. The most important components of this financial risk are interest rate risk, equity price risk and credit risk.

These risks arise from open positions in interest rate and equity risk products, both of which are exposed to general and specific market movements. The risks that the Society primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The Board of Trustees appointed an Investment Committee to focus on the Society's investment strategy, risk management and asset allocation. Risk management and investment decisions are made under the guidance and policies approved by the Board of Trustees. The Audit and Investment Committees assist the board with the formulating of these policies.

The Society's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments, which the Society holds to meet its obligations to its members.

Risk management and investment decisions are carried out by the Board of Trustees. The Board of Trustees identifies and evaluates risks associated with the Society's investment portfolio, with the assistance of the Investment Committee.

The Society appointed a professional asset management company with a solid track record to manage the Society's investment portfolio. The approach of the asset manager is to construct a portfolio of diversified asset classes in order to obtain an optimal risk/return mix. The strategy is to focus on strategic asset allocation rather than on timing the market. This will mitigate the risk of volatile markets.

**LIQUIDITY RISK**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities through liquid holding cash positions with various financial institutions. This ensures that the Society has the ability to fund its day-to-day operations.

At year end 8.5% (2007: 11.8%) of the Society's assets were invested in cash products to ensure that the Society can meet its short-term liabilities.

**BP MEDICAL AID SOCIETY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008 (continued)**

**20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)**

**LIQUIDITY RISK (CONTINUED)**

The table below illustrates the prudent liquidity position of the Society:

**As at 31 December 2008**

<b>Category</b>	<b>Total</b>	<b>Less than 1 month</b>	<b>Between 1 and 3 months</b>	<b>Between 3 months and 1 year</b>	<b>Over 1 year</b>
Trade and other payables	565,200	565,200	-	-	-
Outstanding claims provision	3,507,049	2,227,194	506,364	773,491	-
Available cash	4,072,249				
	54,061,076	54,061,076			
Excess liquidity	49,988,827				

**As at 31 December 2007**

<b>Category</b>	<b>Total</b>	<b>Less than 1 month</b>	<b>Between 1 and 3 months</b>	<b>Between 3 months and 1 year</b>	<b>Over 1 year</b>
Trade and other payables	2,109,007	2,109,007	-	-	-
Outstanding claims provision	3,337,844	2,016,680	952,378	368,787	-
Available cash	5,446,851				
	55,790,143	55,790,143	-	-	-
Excess liquidity	50,343,292				

**CREDIT RISK**

The Society has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Society is exposed to credit risk are:

- amounts due from members and service providers; and
- interest due from financial institutions.

The table below illustrates the quality of the Society's receivables in order to assess the credit risk:

**As at 31 December 2008**

<b>Class</b>	<b>Fully performing</b>	<b>Past due</b>	<b>Impaired</b>	<b>Total</b>
Insurance receivables	651,528	381,325	43,594	1,076,447
Accrued income	2,220,348	-	-	2,220,348

**As at 31 December 2007**

<b>Class</b>	<b>Fully performing</b>	<b>Past due</b>	<b>Impaired</b>	<b>Total</b>
Insurance receivables	537,505	233,943	23,689	795,137
Accrued income	753,453	-	-	753,453

The credit risk on liquid funds is limited because the counter parties are financial institutions with high credit ratings.

**BP MEDICAL AID SOCIETY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008 (continued)**

**20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)**

**CREDIT RISK (CONTINUED)**

The Society has no significant concentration of credit risk, with exposure spread over a large number of counter parties and members.

The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset, where a legally enforceable right exists.

The table below provides an age analysis of the credit that is past due, but not yet impaired.

**As at 31 December 2008**

<b>Class</b>	<b>0 - 30 days</b>	<b>30 - 60 days</b>	<b>60 - 90 days</b>	<b>Total</b>
Insurance receivables	191,360	160,463	29,502	381,325
Accrued income	-	-	-	-

**As at 31 December 2007**

<b>Class</b>	<b>0 - 30 days</b>	<b>30 - 60 days</b>	<b>60 - 90 days</b>	<b>Total</b>
Insurance receivables	78,126	135,903	19,914	233,943
Accrued income	-	-	-	-

Management information reported to the Society includes details of provisions for impairment on receivables and subsequent write-offs. The table below provides an analysis of the receivables that were impaired:

<b>Class</b>	<b>2008</b>	<b>2007</b>
	<b>R</b>	<b>R</b>
Insurance receivables	43,594	23,689
<b>Total</b>	<b>43,594</b>	<b>23,689</b>

**MARKET RISK**

The Society has exposure to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market price risk comprises three types of risks: currency risk, interest rate risk and other price risk, which includes equity price risk.

*Currency risk*

The Society has exposure to currency risk, which is the risk that the fair value of a financial instrument will fluctuate because of changes in the value of the currency.

The Society is exposed to foreign exchange risk arising from its investment in the Stanlib Medical Investment Fund denominated in Euros.

At 31 December 2008 R4,961,114 was invested in offshore cash (2007: R3,808,933), which accounted for 9.2% (2007: 7.7%) of investable assets.

The Trustees manage this risk by ensuring that the asset manager complies with the regulations of the Act. The maximum exposure to foreign cash is 10% of investable assets.

**BP MEDICAL AID SOCIETY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008 (continued)**

**20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)**

**MARKET RISK (CONTINUED)**

*Sensitivity analysis*

The sensitivity analysis for currency risk illustrates how changes in the value of the Rand will affect the value of the Society's investments at the reporting date.

If the value of the Rand depreciates by 5% it will result in an increase in reserves by R248,056 (2007: R48,785). If the value of the Rand appreciates by 5% it will result in a decrease in reserves by R248,056 (2007: R48,785).

This sensitivity analysis is based on a change in an assumption while holding all other assumptions constant.

*Interest rate risk*

The Society is exposed to interest rate risk as it places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate placings within market expectations.

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

<b>2008</b>	<i>Up to 1 month</i>	<i>1 - 3 months</i>	<i>3 - 12 months</i>	<i>1 - 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Cash and cash equivalents	4,941,133	-	-	-	-	4,941,133
Available-for-sale investments						
- Bonds	-	-	-	12,997,137	-	12,997,137
- Cash	17,024,972	-	-	-	-	17,024,972
	<u>21,966,105</u>	<u>-</u>	<u>-</u>	<u>12,997,137</u>	<u>-</u>	<u>34,963,242</u>

The cash and cash equivalents are subject to floating interest rates, linked to the repo rate. Bond investments are subject to fixed interest rates, which varies between 3.1% and 9.5%. The cash portion in the available-for-sale investment contains a 37% exposure to floating interest rates and 63% exposure to fixed interest rates.

<b>2007</b>	<i>Up to 1 month</i>	<i>1 - 3 months</i>	<i>3 - 12 months</i>	<i>1 - 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Cash and cash equivalents	6,769,134	-	-	-	-	6,769,134
Available-for-sale investments						
- Bonds	-	-	-	5,735,460	-	5,735,460
- Cash	20,216,262	-	-	-	-	20,216,262
	<u>26,985,396</u>	<u>-</u>	<u>-</u>	<u>5,735,460</u>	<u>-</u>	<u>32,720,856</u>

The cash and cash equivalents are subject to floating interest rates, linked to the repo rate. Bond investments are subject to fixed interest rates, which varies between 3.1% and 9.5%.

*Sensitivity analysis*

The sensitivity analysis for interest rate risk illustrates how changes in the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

**BP MEDICAL AID SOCIETY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008 (continued)**

**20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)**

**MARKET RISK (CONTINUED)**

A decrease in 100 basis points in interest yields for a full year would result in an increase in reserves by R1,451,383 (2007: decrease of R150,186). An increase in 100 basis points in interest yields for a full year would result in an increase in reserves by R748,409 (2007: R150,186).

This sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated, for example the effect of interest rates on the equity market.

The Trustees monitor the reported interest rate movements on a monthly basis.

*Equity price risk*

The Society is exposed to equity price risk as it invested funds in South African Equities through an asset manager. The Society's equity portfolio is a long-term investment and the funds invested in this portfolio are not needed in the short or medium term. This mitigates the risk for short-term fluctuations in the equity market. The Society appointed a reputable asset manager with a good track record in terms of performance.

*Sensitivity analysis*

The sensitivity analysis for equity price risk illustrates how changes in the fair value of future cash flows of a financial instrument will fluctuate because of changes in the equity market at the reporting date.

A decrease of 5% in the JSE all share index would result in a decrease in reserves by R733,264 (2007: R588,229). An increase of 5% in the JSE all share index would result in an increase in reserves by R733,264 (2007: R588,229). This full amount would be recognised in the Society's revaluation reserve, and will not affect the income statement or the Society's reserve ratio.

This sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated, for example the effect of interest rates on the equity market.

The Trustees monitor the equity portfolio movements on a monthly basis and the Investment Committee has regular meetings to review the Society's strategy and asset allocation.

*Risk management of the investment portfolio*

The asset manager's approach is to construct a portfolio of diversified asset classes, after determining the long-term relationship or correlation of these asset classes in order to obtain an optimal risk/return mix. The asset manager uses strategic asset allocation rather than market timing strategies to manage risk. Quantitative analysts ensure appropriate risk exposure.

*Fair value estimation*

The fair value of publicly traded financial instruments and available-for-sale investments is based on quoted market prices at the balance sheet date.

The table below provides the carrying amounts of financial assets and liabilities per category

<b>Investments</b>	<b>2008</b>	<b>2007</b>
	<b>R</b>	<b>R</b>
Available-for-sale investments	49,119,943	49,021,009
Cash and cash equivalents	4,941,133	6,769,134
Trade and other receivables	4,053,825	1,914,590
- Insurance receivables	1,602,043	1,114,848
- Other receivables	2,220,348	753,453
- Risk transfer arrangements	231,434	46,289
Trade and other payables	565,200	2,109,007

The carrying amounts of these financial assets and liabilities approximate the fair values.

## **20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)**

### **CAPITAL MANAGEMENT**

The Society's objective is to manage its capital in such a way that the annual contribution increase to members is as low as possible or at least in line with salary and pension increases. The Society therefore decided to use some of its investment income to fund any possible deficit that might occur as a result of operational losses.

Capital adequacy risk is the risk that there may be insufficient reserves to provide for adverse variations on actual and future experience.

The accumulated funds ratio was 95.0% at 31 December 2008 and 95.4% at 31 December 2007.

The accumulated funds ratio above compares favourably to the prescribed accumulated funds ratio of 25%.

The accumulated funds ratio is calculated by dividing the accumulated funds by annual contributions. Accumulated funds comprises members' funds less the revaluation reserve.

## **21. INSURANCE RISK MANAGEMENT**

### **NATURE AND EXTENT OF RISKS ARISING FROM INSURANCE CONTRACTS**

The Society issues contracts that transfer insurance risk. This section summarises these risks and the way the Society manages them.

#### **Insurance risk - description of benefits**

The types of benefits offered by the Society in return for monthly contributions are indicated below:

- In-hospital benefits cover all cost incurred by members while they are in hospital to receive pre-authorised treatment for certain medical conditions.
- Chronic medication benefits cover the cost of certain prescribed medicines consumed by members for chronic conditions/diseases, such as high blood pressure, cholesterol and asthma.
- Day-to-day benefits cover the cost (up to 100% of the National Health Reference Price List tariff) of out-of-hospital medical attention (subject to certain sub-limits), such as visits to general practitioners and dentists, as well as prescribed non-chronic medicines.

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

The primary insurance activity carried out by the Society 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 Society's members. As such the Society is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Society also has exposure to market risk through its insurance and investment activities.

The Board of Trustees has developed and approved a documented policy for the acceptance and management of insurance risk to which the Society is exposed. Reference has also been made to the requirements of the Medical Schemes Act in compiling the insurance risk management policy. The policy is reviewed annually and the benefit option provided to members is structured to fall within the acceptable insurance risk levels specified. The Board of Trustees also determines the policy for entering into risk transfer arrangements. The annual business plan is structured around the insurance risk management policy.

The Society manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, as well as the monitoring of emerging issues. Certain risks are mitigated by entering into a risk transfer arrangement.

**BP MEDICAL AID SOCIETY  
NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2008 (continued)**

**21. INSURANCE RISK MANAGEMENT (CONTINUED)**

The Society uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include analysing detailed claims information with the assistance of the Society's actuarial consultants. The Trustees also appointed a managed care provider to focus on specific areas where the Society is exposed to insurance risk. These managed care programmes include the following:

- chronic medication programme;
- HIV & AIDS programme;
- hospital management programme;
- prescribed minimum benefits programme; and
- oncology programme.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected.

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Society has developed its insurance underwriting strategy to diversify the type of insurance risk accepted and within each of these categories to achieve a sufficient large population of risks to reduce the variability of the expected outcome.

**Frequency and severity of claims**

For insurance contracts issued, climatic and seasonal changes, as well as the spread of pandemics give rise to more frequent and severe claims.

**Source of uncertainty in the estimation of future claims payments**

The Society reviews the contributions and benefits annually to ensure that the necessary underwriting surplus is maintained relative to the risk exposure. It is relatively easy to assess the future claims payments since the large majority is lodged soon after year end, before the four-month expiration of claims period comes into effect.

All the contracts are annual in nature and the Society has the right to change the terms and conditions of the contracts at renewal. Management information, including contribution income, claims ratios, target markets and demographic splits, is reviewed monthly.

The strategy is set out in the annual business plan, which specifies the benefits to be provided. Management information, including contribution income and claims ratios, is reviewed monthly.

**Concentration of insurance risk**

The following table summarises the concentration of insurance risk, with reference to the number of beneficiaries by age group.

<b>2008</b>		<b>2007</b>	
Age grouping (in years)	Total	Age grouping (in years)	Total
< 26	1,839	< 26	1,937
26 - 35	548	26 - 35	591
36 - 50	1,219	36 - 50	1,208
51 - 65	1,004	51 - 65	1,047
> 65	1,097	> 65	1,089
Total	5,707	Total	5,872

**BP MEDICAL AID SOCIETY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2008 (continued)**

**21. INSURANCE RISK MANAGEMENT (CONTINUED)**

**Concentration of insurance risk (continued)**

The following table summarises the concentration of insurance risk (before risk transfer arrangements), with reference to the carrying amount of the insurance claims incurred, by age group and in relation to the type of risk covered/benefits provided.

**2008**

Age grouping	General practitioners	Specialists	Dentistry	Medicines	Hospital	Other	Total
	R	R	R	R	R	R	R
<26	1,010,466	175,501	516,157	1,078,363	2,564,903	280,680	5,626,070
26 - 35	494,286	91,295	210,862	664,745	2,804,896	250,881	4,516,965
36 - 50	1,080,615	233,533	630,401	2,169,375	5,673,988	1,064,923	10,852,835
51 - 65	935,294	168,712	598,827	3,282,997	6,736,395	2,388,653	14,110,878
>65	1,165,853	189,785	528,802	5,171,934	16,593,810	4,413,157	28,063,341
Total	4,686,514	858,826	2,485,049	12,367,414	34,373,992	8,398,294	63,170,089

**2007**

Age grouping	General practitioners	Specialists	Dentistry	Medicines	Hospital	Other	Total
	R	R	R	R	R	R	R
<26	1,079,335	210,232	490,186	1,123,396	2,677,249	487,438	6,067,836
26 - 35	460,007	123,670	253,818	582,717	2,357,416	419,342	4,196,970
36 - 50	1,041,489	229,378	563,100	2,066,883	4,435,673	1,374,872	9,711,395
51 - 65	880,937	204,139	550,002	3,109,300	5,487,866	2,925,687	13,157,931
>65	1,077,484	161,815	481,356	4,762,164	13,889,676	4,460,831	24,833,326
Total	4,539,252	929,234	2,338,462	11,644,460	28,847,880	9,668,170	57,967,458

The strategy is reviewed annually and specifies the benefits to be provided, as well as the contribution payable.

**Claims development**

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

**Risk transfer arrangements**

The Society entered into a capitation agreement with an optical service provider.

However, the Society remains liable to its members with respect to these services, should the capitation provider fail to meet its obligation.

The amount of each risk retained depends on the Society's evaluation of the specific risk subject, in certain circumstances, to maximum limits on the basis of characteristics of coverage. According to the terms of the risk transfer arrangements, the third party agrees to reimburse the ceded amount in the event the claim is paid. According to the terms of the capitation agreement, the supplier provides certain minimum benefits to all Society members, as and when required by the members. The Society does, however, remain liable to its members with respect to ceded insurance if any reinsurer (or supplier) fails to meet the obligation it assumes.

**21. INSURANCE RISK MANAGEMENT (CONTINUED)**

**Risk transfer arrangements (continued)**

When selecting a capitation provider the Society considers its relative security. The security of the capitation provider is assessed from public rating information and from internal investigations, such as considering capital adequacy, solvency, capacity and appropriate resources.

**22. CRITICAL ACCOUNTING JUDGEMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the Society's accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

A key assumption concerning the future that has a significant risk of causing a material adjustment to the carrying amounts of liabilities in the next financial year is that used to determine the provision for outstanding claims (refer note 7).

When arriving at this provision it is assumed that the reporting and settlement trend of claims incurred but not reported will be similar to that of the previous financial period. The provision is calculated based on percentages derived from the previous financial period and is adjusted as the claims are reported and settled.

Although the assumption is considered critical, post balance sheet settlements against the provision have been monitored to ensure reasonability of the original provision.





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