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*medical
aid
society*
there when you need us.



NOTICE IS HEREBY GIVEN THAT THE SEVENTY-THIRD ANNUAL GENERAL MEETING OF BP MEDICAL AID SOCIETY WILL BE HELD ON THURSDAY, 27 MAY 2010, AT 10:30 IN THE INNOVATION MEETING ROOM, BP BUILDING, 10 JUNCTION AVENUE, PARKTOWN JOHANNESBURG.

AGENDA

1. Opening and welcome
2. Apologies
3. To adopt the Minutes of the Annual General Meeting held on Tuesday, 26 May 2009
4. To adopt the Annual Report of the Chairman of the Board for the year ended 31 December 2009
5. To adopt the Annual Financial Statements for the year ended 31 December 2009
6. To note the composition of the Disputes Committee for the ensuing year
7. To note the appointment of the Auditors for the ensuing year
8. To report back on matters raised by members at the 2009 Annual General Meeting
9. To transact any other business of which notice was given to the Principal Officer by 21 May 2010

By order of the Board

ILSE HARTLIEF
PRINCIPAL OFFICER

BP MEDICAL AID SOCIETY CHAIRMAN'S REPORT FOR THE YEAR 2010

I am pleased to report that once again BP Medical Aid Society has maintained its strong financial performance during the last year whilst continuing to offer its members benefit enhancements and keeping contribution increases to a minimum.

The past year has not been without its challenges and the impact of these have been felt by our members, service providers and my colleagues on the Board of Trustees.

On the legislative front, the interpretation of prescribed minimum benefits (PMBs) and the impact of the proposed National Health Insurance (NHI) have consumed much time and resources in the medical aid industry. Our Society was not immune.

The government has recently appointed task teams to look into PMBs and the NHI. The Board looks forward to receiving the feedback and recommendations from the task teams. We will keep you, our members, updated on any significant progress that is made in this arena.

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

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 such 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.

Benefit design

The Board of Trustees had a tough time deciding on the benefit enhancements and contribution increases for this year. As a Board, we have always tried to increase our healthcare benefits as generously as we can while still keeping the contribution increases to a minimum. This objective of ours was further challenged by the recessionary climate that the global economies faced during 2009. As a result of the good performance of our investment managers, as well as the conservative claiming patterns of our members in general, we were able to increase the benefit limits across the board.

Whilst no changes were made to the benefit design and no new benefits were introduced, the overall limit and sub-limits were increased by 8%.

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.

Contributions

Contributions were increased by 15% on 1 April 2010. 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 6.3%, in line with inflation, to minimise the impact of "bracket creep" on members as far as possible.

Solvency

The Society remains financially sound with a solvency ratio of 87.71% as at 31 December 2009. These reserves are well in excess of the legislated targets but appropriate for the long-term sustainability of a scheme with our membership.

**BP MEDICAL AID SOCIETY
CHAIRMAN'S REPORT FOR THE YEAR 2010 (CONTINUED)**

The Trustees are committed to ensuring the financial viability of the Society and will continue their efforts to keep costs to a minimum without compromising the high standard of healthcare. Legislative developments will be monitored closely on an ongoing basis to pre-empt and minimise the impact on the Society and its members.

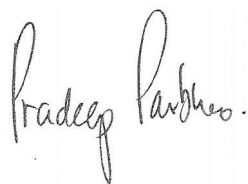
A note of thanks

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.

On behalf of the BP Medical Aid Society, we wish to take this opportunity to express our heartfelt appreciation to:

- our Trustees, Albert, Bebe, Doreanne, John, Mike 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;
- our medical advisor, Dr Shuaib Manjra, for his continued passion, dedication and commitment, as well as his clinical guidance and wisdom as Chairman of the Clinical Sub-committee;
- the members of our various committees and sub-committees - audit, clinical, risk, legal compliance and contractual, investment, operations 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.



PRADEEP PARBHOO
CHAIRMAN: BP MEDICAL AID SOCIETY

**BP MEDICAL AID SOCIETY
ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2009**

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 Society). The Annual Financial Statements presented on pages 14 to 40 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.

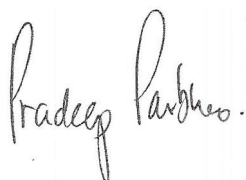
The Trustees have responsibility for ensuring that accounting records are kept. The accounting records should disclose with reasonable accuracy the financial position of the Society, which enables the Trustees to ensure that the Annual Financial Statements comply with the relevant legislation.

The 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 6.

The financial statements were approved by the Board of Trustees on 20 April 2010 and are signed on its behalf by:



P Parbhoo
Chairman



AJ Myburgh
Trustee



I Hartlief
Principal Officer

20 April 2010

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

The 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

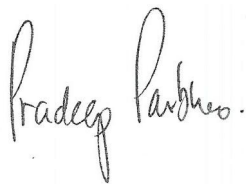
The Trustees meet regularly and monitor the performance of the Administrator. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive.

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.



P Parbhoo
Chairman



AJ Myburgh
Trustee



I Hartlief
Principal Officer

20 April 2010

**BP MEDICAL AID SOCIETY
ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2009**

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

We have audited the Annual Financial Statements of BP Medical Aid Society, which comprise the statement of financial position as at 31 December 2009, the statement of comprehensive income, the statement of changes in funds and reserves and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 14 to 40.

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. 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.

Auditor's responsibility

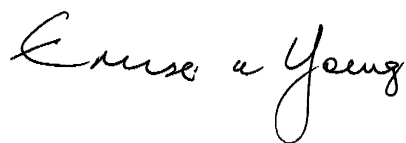
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether 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 of 31 December 2009, and 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.



Ernst & Young Inc
Registered Auditor

Cape Town
20 April 2010

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

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

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
E Oyegun
P Parbhoo Chairman

Member elected

J Bush
MJ Manson-Smith
A Myburgh

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)**

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 Health (Pty) Ltd

40 Dorp Street
Stellenbosch
7600

PO Box 700
Stellenbosch
7599

2. DESCRIPTION OF THE MEDICAL SCHEME

The Society is a not-for-profit restricted membership scheme 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 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 Stanlib Medical Investment Fund consists of bonds, equities, property, international cash and cash. This strategy is reviewed regularly, 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 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.

5. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

5.1 OPERATIONAL STATISTICS

	2009	2008
Number of members at year end	2,367	2,431
Average number of members for the year	2,409	2,473
Average number of beneficiaries for the year	5,482	5,707
Number of beneficiaries at year end	5,360	5,588
Proportion of dependants at year end	1.27	1.30
Average age of beneficiaries	41	40
Continuation member ratio	51%	48%
Average contributions per member per month (R)	2,127	1,916
Average contributions per beneficiary per month (R)	935	830
Average claims incurred per member per month (R)	2,535	2,159
Average claims incurred per beneficiary per month (R)	1,114	935
Average administration costs per member per month (R)	132	125
Average managed care: Management services per member per month (R)	51	31
Average accumulated funds per member at 31 December (R)	22,582	22,015
Relevant healthcare expenditure as a percentage of contributions	119.1%	112.7%
Managed care: Management services as a percentage of contributions	2.4%	1.6%
Non-healthcare expenses as a percentage of contributions	6.2%	6.5%
Amounts paid to Administrator (R)	4,131,661	3,408,026
- Administration fees	2,664,119	2,484,479
- Managed care fees	1,467,542	923,547

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

5.1 OPERATIONAL STATISTICS (CONTINUED)

	2009	2008
Relevant healthcare expenditure per beneficiary per month (R)	1,114	935
Non-healthcare expenditure per beneficiary per month (R)	59	55
Return on investments as a percentage of investments	10.3%	1.1%

5.2 RESULTS OF OPERATIONS

The results of the Society's operations for the year under review and financial position at 31 December 2009 are set out in the Annual Financial Statements. The increase in managed care cost is due to the implementation of additional managed care programmes. (Refer to note 10 on Page 28) The Trustees believe that no further clarification is required.

5.3 ACCUMULATED FUNDS RATIO

	2009 R	2008 R
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per the statement of financial position	<u>53,936,846</u>	<u>51,820,680</u>
Annual contributions	<u>61,495,839</u>	<u>56,866,397</u>
Accumulated funds ratios:		
Accumulated funds/annual contributions x 100 %	<u>87.71%</u>	<u>91.13%</u>

The revaluation reserve at 31 December 2009 is an unrealised loss of R462,311 (2008: R2,623,089) 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 statement of financial position 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. EVENTS POST THE STATEMENT OF FINANCIAL POSITION DATE

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.

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 2009 the value of the fidelity cover was R10,000,000 (2008: R10,000,000).

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

9. ACTUARIAL SERVICES

The Society's actuaries, Alexander Forbes Health, 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 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 which two are members of the Board of Trustees:

The Audit Committee comprises: 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:

- 2 April 2009
- 3 August 2009
- 3 November 2009.

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 four members.

The sub-committee comprises: Mr A Myburgh (Chairman), Mr MJ Manson-Smith and Mr P Parbhoo. 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 2009
- 4 May 2009
- 26 October 2009.

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.

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

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

13. LEGAL AND CONTRACTUAL SUB-COMMITTEE (CONTINUED)

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

- 9 February 2009
- 16 April 2009
- 3 August 2009
- 16 October 2009.

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 four members.

The sub-committee comprises: Ms E Oyegun (Chairman), Ms D Bastiaan, Mr P Parbhoo and Mr JV Mbedu. Ms I Hartlief attends meetings in her capacity as the Principal Officer.

The sub-committee met on five occasions during the course of the year, as follows:

- 9 February 2009
- 2 June 2009
- 16 September 2009
- 16 October 2009
- 16 November 2009.

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 five members.

The sub-committee comprises: Dr S Manjra (Chairman and Medical Advisor), Mr J Bush, Mr P Parbhoo and Mr MJ Manson-Smith. 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:

- 26 January 2009
- 28 April 2009
- 6 July 2009
- 5 October 2009.

The primary responsibility of the sub-committee is to assist the Board of Trustees in 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, 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 Committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
E Bester			3	2										
J Bush	6	6	3	3			4	4			4	4		
DM Bastiaan	6	5							2	2				
P Dourans			3	1										
S Manjra (medical advisor)	6	6									4	4		
MJ Manson-Smith	6	6			3	3					4	3		
JV Mbedu	6	4							5	3				
C McClelland													-	-
A Myburgh	6	4	3	1	3	3								
A Ngubo													-	-
I Hartlief (Principal Officer)	6	6	3	3	3	3	4	4	5	5	4	4		
E Oyegun	6	4					4	3	5	5				
P Parbhoo	6	6			1	1	4	3	5	4	4	3		
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
STATEMENT OF FINANCIAL POSITION
as at 31 December 2009**

ASSETS	Notes	2009 R	2008 R	2007 R
Non-current assets				
Available-for-sale investments	3	51,813,258	49,119,943	49,021,009
		51,813,258	49,119,943	49,021,009
Current assets				
Trade and other receivables	4	7,318,332	6,772,986	7,943,751
		1,287,071	1,831,853	1,174,617
Cash and cash equivalents	5	6,031,261	4,941,133	6,769,134
Total assets		59,131,590	55,892,929	56,964,760
FUNDS AND LIABILITIES				
Members' funds (Page 15)				
Accumulated funds		53,936,846	51,820,680	51,517,909
		54,399,157	54,443,769	49,581,924
Revaluation reserve: Available-for-sale investments		(462,311)	(2,623,089)	1,935,985
Current liabilities				
Trade and other payables	6	5,194,744	4,072,249	5,446,851
		538,260	565,200	2,109,007
Outstanding claims provision	7	4,656,484	3,507,049	3,337,844
Total funds and liabilities		59,131,590	55,892,929	56,964,760

BP MEDICAL AID SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009

	Notes	2009 R	2008 R
Contribution income	8	61,495,839	56,866,397
Relevant healthcare expenditure		(73,267,897)	(64,060,112)
Net claims incurred		(73,705,847)	(64,071,785)
Claims incurred	9	(73,878,717)	(64,400,955)
Third-party claim recoveries		172,870	329,170
Net income on risk transfer arrangements	9	437,950	11,673
Risk transfer arrangement fees/premiums paid		(1,286,965)	(1,219,193)
Recoveries from risk transfer arrangements		1,724,915	1,230,866
Gross healthcare result		(11,772,058)	(7,193,715)
Managed care: Management services	10	(1,467,542)	(923,547)
Administration expenses	11	(3,820,700)	(3,696,436)
Net impairment loss	12	(14,400)	(19,915)
Net healthcare result		(17,074,700)	(11,833,613)
Other income		17,030,088	16,695,458
Investment income	13	3,359,412	5,105,611
Realised loss on disposal of available-for-sale investment		(26,096)	-
Continuing financial commitment from Employer	14	13,689,409	11,572,772
Other operating income	14	7,363	17,075
Net (deficit)/surplus for the year		(44,612)	4,861,845
Other comprehensive income			
Fair value adjustment on available-for-sale investments		553,876	(3,096,980)
Realised gain/(loss) on disposal of available-for-sale investments		1,606,902	(1,462,094)
Total comprehensive income for the year		2,116,167	302,771

**BP MEDICAL AID SOCIETY
STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2009**

	2009	2008
	R	R
Accumulated funds		
Balance at beginning of year	54,443,769	49,581,924
Net (deficit)/surplus for the year	(44,612)	4,861,845
Balance at end of the year	<u>54,399,157</u>	<u>54,443,769</u>
Revaluation reserve: Available-for-sale-investments		
Balance at beginning of year	(2,623,089)	1,935,985
Unrealised gain/(loss) on remeasurement of available-for-sale investments	553,876	(3,096,980)
Interest and dividends movement	1,580,806	(1,462,094)
Opening balance	2,178,378	716,284
Closing balance	(597,572)	(2,178,378)
Realised loss on sale of investment	26,096	-
Balance at end of the year	<u>(462,311)</u>	<u>(2,623,089)</u>
Members' funds	<u>53,936,846</u>	<u>51,820,680</u>

**BP MEDICAL AID SOCIETY
STATEMENT OF CASH FLOWS
for the year ended 31 December 2009**

	Notes	2009 R	2008 R
CASH FLOWS FROM OPERATING ACTIVITIES			
(Deficit)/surplus for the year		(44,612)	4,861,845
Investment income			
- interest		<u>(2,265,003)</u>	<u>(3,682,875)</u>
- dividends		<u>(1,094,409)</u>	<u>(1,422,736)</u>
Cash flows from operations before working capital changes		(3,404,024)	(243,766)
Working capital changes			
- Decrease in trade and other receivables		544,781	59,048
- Increase in provision for outstanding claims		1,149,435	169,205
- Decrease in trade and other payables		(26,940)	(1,543,807)
Net cash inflows/(outflows) from operating activities		<u>(1,736,748)</u>	<u>(1,559,320)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capitalised interest and dividends		(4,639,439)	(3,195,914)
Additions to available-for-sale investments		(2,800,000)	-
Disinvestment of available-for-sale investments		5,300,000	-
Realised gains, interest and dividends		1,606,903	(2,178,378)
Investment income			
- interest		<u>2,265,003</u>	<u>3,682,875</u>
- dividends		<u>1,094,409</u>	<u>1,422,736</u>
Net cash inflows from investing activities		2,826,876	(268,681)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<u>1,090,128</u>	<u>(1,828,001)</u>
Cash and cash equivalents at beginning of the year		<u>4,941,133</u>	<u>6,769,134</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	5	<u><u>6,031,260</u></u>	<u><u>4,941,133</u></u>

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 IFRS 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 statement of financial position 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 date of the statement of financial position 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 reflected as other comprehensive income in the statement of comprehensive income. 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 net surplus in the statement of comprehensive income.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market prices at the statement of financial position 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 statement of comprehensive income 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 statement of comprehensive income 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 comprises 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 date of the statement of financial position 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 statement of comprehensive income.

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 the 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 date of the statement of financial position 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 statement of comprehensive income and the statement of financial position on a gross basis. Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance. Amounts recoverable under such contracts are recognised in the same year as the related claim.

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 the date of the statement of financial position. 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 a 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 Reimbursement 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 Road Accident Fund 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 statement of comprehensive income.

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 statement of comprehensive income.

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:

IFRS 9 Financial Instruments (effective for years commencing on or after 1 January 2013) - this standard addresses the initial measurement and classification of financial assets as either measured at amortised cost or at fair value. Financial assets are measured at amortised cost when the business model is to hold assets in order to collect contractual cash flows. All other financial assets are measured at fair value with changes recognised in profit or loss. For an investment in an equity instrument that is not held for trading, an entity may on initial recognition elect to present all fair value changes from the investment in other comprehensive income. IFRS 9 will be adopted for the first time for the year ending 31 December 2013 and will be applied retrospectively, subject to certain transitional provisions. The impact on the financial statements has not yet been estimated.

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2009 (CONTINUED)

2. FORTHCOMING REQUIREMENTS (CONTINUED)

Revised IAS 24 Related Party Disclosures (effective for years commencing on or after 1 January 2011) - this standard addresses the disclosure requirements in respect of related parties, with the main changes relating to the definition of a related party where new related party relationships have been identified. This standard will be adopted retrospectively for the first time for the year ending 31 December 2011.

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.

3. AVAILABLE-FOR-SALE INVESTMENTS	2009	2008
	R	R
Fair value at the beginning of the year	49,119,943	49,021,009
Additions	2,800,000	-
Disinvestments	(5,300,000)	-
Capitalised interest and dividends	4,639,439	3,195,914
Unrealised gain/(loss) on available-for-sale investments	553,876	(3,096,980)
Fair value at the end of the year	<u>51,813,258</u>	<u>49,119,943</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	9,466,944	12,997,137
Property	4,755,571	5,029,882
Equities with primary listing on the JSE	14,765,077	12,152,274
Foreign equity	-	1,915,678
Local cash	18,663,991	12,063,858
Foreign cash	4,161,675	4,961,114
	<u>51,813,258</u>	<u>49,119,943</u>

The investment has no fixed maturity. The fair value of the investment is based on their market value as at 31 December 2009.

The foreign equity in the 2008 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. TRADE AND OTHER RECEIVABLES

Insurance receivables	1,187,367	1,602,043
Contributions outstanding	807,075	1,069,648
Amounts owing by members and service providers	11,974	6,799
Continuing financial commitment	-	366,474
Income receivable - HIV & AIDS	368,318	159,122

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2009 (CONTINUED)

	2009	2008
	R	R
4. TRADE AND OTHER RECEIVABLES (CONTINUED)		
Less:		
Provision for impairment losses on insurance receivables	(52,950)	(43,594)
Balance at the beginning of the year	(43,594)	(23,689)
Provision made during the year	(14,400)	(19,915)
Amounts reversed during the year	5,044	10
Other receivables	23,957	41,970
Interest receivable	23,957	41,970
Risk transfer arrangements	128,697	231,434
Share of outstanding claims provision	128,697	231,434
	<u>1,287,071</u>	<u>1,831,853</u>
Analysis of movements in respect of risk transfer arrangements		
Balance at the beginning of the year	231,434	46,289
Payment in respect of prior year	(231,434)	(46,289)
Under provision in prior year	-	-
Adjustments for current year	128,697	231,434
Balance at end of year	<u>128,697</u>	<u>231,434</u>

The carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets.

The 2008 interest receivable amount decreased from R2,220,348 to R41,970 due to a prior period error. Refer to note 23.

5. CASH AND CASH EQUIVALENTS

Call accounts	2,000,000	4,330,000
Current accounts	4,031,261	611,133
Cash and cash equivalents per cash flow statement	<u>6,031,261</u>	<u>4,941,133</u>

The weighted average effective interest rate on short-term bank deposits was 9.73% (2008: 11.62%).

At 31 December the carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets.

6. TRADE AND OTHER PAYABLES

Insurance liabilities		
Debtors with credit balances	188,036	148,982
Financial liabilities		
Accrued expenses	77,258	151,204
Provision for audit fees	272,966	265,014
	<u>538,260</u>	<u>565,200</u>

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

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2009 (CONTINUED)

	2009	2008
	R	R
7. OUTSTANDING CLAIMS PROVISION		
Not covered by risk transfer arrangements		
Provision for outstanding claims	4,527,787	3,275,615
Analysis of movements in outstanding claims		
Balance at beginning of year	3,275,615	3,291,555
Payments in respect of prior year	(2,946,637)	(3,135,463)
Over provision in the prior year	328,978	156,092
Over provision in respect of prior year written back	(328,978)	(156,092)
Adjustment for current year	4,527,787	3,275,615
Provision at end of year (note 9)	4,527,787	3,275,615
Covered by risk transfer arrangements		
Provision for outstanding claims for PPN	128,697	231,434
Analysis of movements in outstanding claims		
Balance at beginning of year	231,434	46,289
Payments in respect of prior year	(231,434)	(46,289)
Under provision in the prior year	-	-
Adjustment for current year	128,697	231,434
Provision at end of year (note 9)	128,697	231,434
Total outstanding claims provision	4,656,484	3,507,049

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 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. Run-off triangles are used in situations where it takes time after the treatment date until the full extent of the claims to be paid is known. It is assumed that payments will emerge in a similar way in each service month. The proportional increase in the known cumulative payments from one development month to the next can then be used to calculate payments for future development months.

7. OUTSTANDING CLAIMS PROVISION

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); and
- 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 run-off period, before the claims turn stale.

The percentages used as assumptions are listed in the table below. The table also outlines the sensitivity of these percentages and the impact on the Society's liabilities if an incorrect assumption is used.

Other assumptions

- 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.

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

	2009	2008
Claims outstanding for services rendered in:	%	%
- December	5	10
- November	4	5
- October	3	3
- September	2	2
- August and prior	1	1

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

	2009	2008
	R	R
Effect of a 1% increase in change in assumptions	316,262	269,429
Effect of a 2% increase in change in assumptions	639,352	544,613
Effect of a 3% increase in change in assumptions	969,478	825,736

The Society believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2009 (CONTINUED)

	2009	2008
	R	R
8. CONTRIBUTION INCOME		
Contributions	61,495,839	56,866,397
9. RELEVANT HEALTHCARE EXPENDITURE		
Claims incurred, excluding claims incurred in respect of risk transfer arrangements		
Current year claims	68,692,473	60,544,833
Movement in outstanding claims provision	4,198,809	3,119,523
Over provision in prior year (note 7)	(328,978)	(156,092)
Adjustment for current year (note 7)	4,527,787	3,275,615
	72,891,282	63,664,356
Less:		
Discounts received on claims	(737,481)	(494,267)
Claims incurred, excluding claims incurred in respect of risk transfer arrangements (note 21)	72,153,801	63,170,089
Claims incurred in respect of risk transfer arrangements		
Current year claims	1,596,219	999,432
Movement in outstanding claims provision	128,697	231,434
Over provision in prior year (note 7)	-	-
Adjustment for current year (note 7)	128,697	231,434
	1,724,916	1,230,866
Claims incurred per the statement of comprehensive income	73,878,717	64,400,955
Net income on risk transfer arrangements		
Premiums/fees paid	1,286,965	1,219,193
Recoveries	1,724,915	1,230,866
Net income per the statement of comprehensive income	437,950	11,673

The Society entered into a risk transfer agreement with Preferred Provider Negotiators (Pty) Ltd (PPN) in January 2005, whereby PPN provided 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, processes and pays 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.

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2009 (CONTINUED)

	2009	2008
	R	R
10. MANAGED CARE: MANAGEMENT SERVICES		
Hospital management programme	482,060	335,081
Chronic medication programme	289,420	262,915
Disease risk management programme	246,701	-
HIV & AIDS programme	176,772	145,982
Oncology programme	56,180	62,341
Prescribed minimum benefit programme	150,622	117,228
Maternity programme	39,472	-
Eldercare programme	26,315	-
	<u>1,467,542</u>	<u>923,547</u>

The increase in managed care services from 2008 to 2009 is as a result of the additional programmes offered in 2009.

11. ADMINISTRATION EXPENSES

Total Trustees/committee members' remuneration and related costs	224,405	194,042
Administrator's fees	2,664,119	2,484,479
Association fees	38,236	36,164
Audit fees - current year audit services	361,008	333,833
Fidelity cover	14,500	14,963
Consulting fees - Alexander Forbes	280,234	264,624
Bank charges	89,846	83,188
Board of Healthcare Funders (BHF) subscriptions	17,260	17,123
Telephone	22,451	19,156
Printing and postage	98,488	178,546
Secretarial services	-	3,750
Travelling and entertainment	8,732	33,596
Legal fees	1,421	13,338
Health education	-	19,634
	<u>3,820,700</u>	<u>3,696,436</u>

11.1 Total Trustees/committee members remuneration and related costs

	Conference fees	Services as Trustee	Travelling and accommodation	Audit Committee attendance	Total
	R	R	R	R	R
31 December 2009					
Mr AJ Myburgh	-	55,110	-	-	55,110
Mr J Bush	-	60,630	1,247	-	61,877
Ms E Bester	-	-	-	12,263	12,263
Mr EJ Rood	-	-	-	17,110	17,110
Mr P Parbhoo	4,750	-	4,692	-	9,442
Ms E Oyegun	-	-	6,240	-	6,240
Mr JV Mbedu	-	-	7,253	-	7,253
Mr MJ Manson-Smith	-	55,110	-	-	55,110
	<u>4,750</u>	<u>170,850</u>	<u>19,432</u>	<u>29,373</u>	<u>224,405</u>

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2009 (CONTINUED)

11. ADMINISTRATION EXPENSES

11.1 Total Trustees/committee members' remuneration and related costs

	Conference fees	Services as Trustee	Travelling and accommoda- tion	Audit Committee attendance	Total
	R	R	R	R	R
31 December 2008					
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

12. NET IMPAIRMENT LOSSES

	2009 R	2008 R
Trade and other receivables		
Contributions that are not collectable	(3,877)	(27,567)
Movement in provision	(3,877)	(27,567)
Written off	-	-
Members' and service providers' portions that are not recoverable	(10,523)	6,551
Movement in provision	(5,479)	7,663
Written off	(5,044)	(1,112)
Less:		
Previous impairment losses recovered	-	1,101
	(14,400)	(19,915)

13. INVESTMENT INCOME

Available-for-sale financial assets - interest income	1,964,224	3,235,271
Available-for-sale financial assets - dividend income	1,094,409	1,422,736
Cash and cash equivalents interest income	300,779	447,604
	3,359,412	5,105,611

14. OTHER OPERATING INCOME

Continuing financial commitment from employer		
Continuation members	12,730,253	10,936,579
HIV & AIDS	959,156	636,193
	13,689,409	11,572,772
Stale cheques written back older than three years	7,363	17,075
	7,363	17,075

**BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2009 (CONTINUED)**

15. EVENTS POST THE STATEMENT OF FINANCIAL POSITION DATE

There have been no events that have occurred subsequent to the end of the accounting period that affect the 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 Health (Pty) Ltd has significant influence over the Society, as they provide financial and operational information on which policy decisions are based, but do 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.

Transactions with related parties

	2009	2008
	R	R
Statement of comprehensive income		
Gross contributions received (key personnel)	267,658	221,712
Claims incurred (key personnel)	313,138	822,166
Continuing financial commitment from Employer	12,730,253	10,936,579
HIV & AIDS refund from Employer	959,156	636,193
Administration fees	2,664,119	2,484,479
Managed care fees	1,467,542	923,547
Consulting fees: Alexander Forbes	280,234	264,624
Statement of financial position		
Consulting fees: Alexander Forbes due	-	22,052
Reimbursement of postage/printing costs payable to MHC	6,759	-

Compensation to key management personnel

Short-term benefits	224,405	194,042
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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.

**BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2009 (CONTINUED)**

16. RELATED PARTY TRANSACTIONS (CONTINUED)

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 2009.

18. CONTINGENT ASSET

As at 31 December 2009 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 the RAF. The value at year end amounted to R1,425,175 (2008: R1,802,483).

19. CONTINGENT LIABILITIES

There were no potential liabilities contingent on the outcome of litigations, claims, guarantees, suretyships or alike at 31 December 2009.

20. FINANCIAL RISK MANAGEMENT REPORT

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

Asset allocation summary	2009	2008
	R	R
Available-for-sale investments (note 3)	51,813,258	49,119,943
Cash and cash equivalents (note 5)	6,031,261	4,941,133
Trade and other receivables (note 4)	1,287,071	1,831,853
	<u>59,131,590</u>	<u>55,892,929</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 formulation of these policies.

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

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 10.2% (2008: 8.5%) of the Society's assets was invested in cash products to ensure that the Society can meet its short-term liabilities. The table below illustrates the prudent liquidity position of the Society:

As at 31 December 2009

Category	Total	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Over 1 year
	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>
Trade and other payables	538,260	538,260	-	-	-
Outstanding claims provision	4,656,484 5,194,744	3,666,662	310,246	679,576	-
Available cash	57,844,519	57,844,519			
Excess liquidity	52,649,776				

As at 31 December 2008

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

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.

BP MEDICAL AID SOCIETY
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20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

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

As at 31 December 2009	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>
Class	Fully performing	Past due	Impaired	Total
Insurance receivables	669,106	93,491	52,950	815,547
Accrued income	23,957	-	-	23,957

As at 31 December 2008	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>
Class	Fully performing	Past due	Impaired	Total
Insurance receivables	651,528	381,325	43,594	1,076,447
Accrued income	41,970	-	-	41,970

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

Fitch National Short-term Rating

Financial institution	2009	2008	Credit rating	
	<i>R</i>	<i>R</i>	2009	2008
Standard Bank	6,031,261	4,941,133	AA	AA+

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 2009	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>
Class	0 - 30 days	30 - 60 days	60 - 90 days	Total
Insurance receivables	47,534	39,747	6,210	93,491
Accrued income	-	-	-	-

As at 31 December 2008	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>
Class	0 - 30 days	30 - 60 days	60 - 90 days	Total
Insurance receivables	191,360	160,463	29,502	381,325
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:

Class	2009	2008
	R	R
Insurance receivables	52,950	43,594
Total	52,950	43,594

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.

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

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 2009 R4,161,675 was invested in offshore cash (2008: R4,961,114), which accounted for 7.19% (2008: 9.2%) 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.

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 R208,084 (2008: R248,056). If the value of the rand appreciates by 5% it will result in a decrease in reserves by R208,084 (2008: R248,056).

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.

2009	<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>
	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>
Cash and cash equivalents	6,031,261	-	-	-	-	6,031,261
Available-for-sale investments						
- Bonds	-	-	-	9,466,944	-	9,466,944
- Cash	22,825,666	-	-	-	-	22,825,666
	<u>28,856,927</u>	<u>-</u>	<u>-</u>	<u>9,466,944</u>	<u>-</u>	<u>38,323,871</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 vary between 3.1% and 16%. The cash portion in the available-for-sale investment contains a 44% exposure to floating interest rates and 56% exposure to fixed interest rates.

BP MEDICAL AID SOCIETY
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20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

2008	Up to 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Total
	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</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>

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.

A decrease in 100 basis points in interest yields for a full year would result in an increase in reserves of R345,641 (2008: increase of R1,451,383). An increase in 100 basis points in interest yields for a full year would result in an increase in reserves of R58,695 (2008: R748,409).

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.

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 to 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 of R758,131 (2008: R733,264). An increase of 5% in the JSE all share index would result in an increase in reserves of R758,131 (2008: R733,264). This full amount would be recognised in the Society's revaluation reserve, and will not affect the Society's reserve ratio. The Society's sensitivity to equity prices has not changed significantly from the prior year.

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 regularly monitor the equity portfolio movements 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.

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2009 (continued)

20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

Fair value estimation

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

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

Investments	2009	2008
	R	R
Available-for-sale investments	51,813,258	49,119,943
Cash and cash equivalents	6,031,261	4,941,133
Trade and other receivables	1,340,021	1,875,447
- Insurance receivables	1,187,367	1,602,043
- Other receivables	23,957	41,970
- Risk transfer arrangements	128,697	231,434
Trade and other payables	538,260	565,200

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

The fair value of available-for-sale investments is based on quoted bid-market prices at the year end date.

The table below illustrates the fair values of financial assets by hierarchy level.

As at 31 December 2009	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Reclassification</i>
	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>
Available-for sale-investments				
Bonds and debentures	9,466,944	-	-	-
Property	4,755,571			
Equities with primary listing on the JSE	14,765,077	-	-	-
Local cash	18,663,991	-	-	-
Foreign cash	4,161,675	-	-	-
Total	51,813,258	-	-	-

As at 31 December 2008	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Reclassification</i>
	<i>R</i>	<i>R</i>	<i>R</i>	<i>R</i>
Available-for sale-investments				
Bonds and debentures	12,997,137	-	-	-
Property	5,029,882	-	-	-
Equities with primary listing on the JSE	12,152,274	-	-	-
Foreign equity	1,915,678	-	-	-
Local cash	12,063,858	-	-	-
Foreign cash	4,961,114	-	-	-
Total	49,119,943	-	-	-

The hierarchy levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. These are readily available in the market and are normally obtainable from multiple sources.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Society for similar financial instruments.

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 87.7% at 31 December 2009 and 91.1% at 31 December 2008.

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

- In-hospital benefits cover all costs incurred by members, whilst they are in hospital to receive pre-authorised treatment for certain medical conditions.
- Chronic 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 documented policies and practices 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. These are 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.

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.

21. INSURANCE RISK MANAGEMENT (CONTINUED)

NATURE AND EXTENT OF RISKS ARISING FROM INSURANCE CONTRACTS (CONTINUED)

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
- Oncology programme
- Disease risk management programme
- Maternity programme
- Eldercare 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 sufficiently 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 and claims ratios, target market and demographic split, is reviewed monthly.

The insurance risk management 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.

2009		2008	
Age grouping (in years)	Total	Age grouping (in years)	Total
< 26	1,873	< 26	1,839
26 - 35	509	26 - 35	548
36 - 50	1,042	36 - 50	1,219
51 - 65	976	51 - 65	1,004
> 65	1,082	> 65	1,097
Total	5,482	Total	5,707

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21. INSURANCE RISK MANAGEMENT (CONTINUED)

NATURE AND EXTENT OF RISKS ARISING FROM INSURANCE CONTRACTS (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.

2009

Age group- ing	General practitio- ners	Specialists	Dentistry	Medicines	Hospital	Other	Total
	R	R	R	R	R	R	R
<26	1,289,108	236,026	638,641	1,316,493	3,341,475	334,754	7,156,497
26 - 35	511,094	78,359	257,328	660,803	2,419,432	232,280	4,159,296
36 - 50	1,079,806	217,114	591,817	2,192,366	4,670,822	1,575,087	10,327,011
51 - 65	1,064,525	182,146	561,574	3,613,444	7,895,431	3,401,635	16,718,754
>65	1,351,243	204,724	622,345	5,786,220	20,673,460	5,154,250	33,792,243
Total	5,295,776	918,368	2,671,704	13,569,325	39,000,621	10,698,006	72,153,801

2008

Age group- ing	General practitio- ners	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

The insurance risk management 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.

The Society, however, 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.

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.

**BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2009 (continued)**

**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 year end settlements against the provision have been monitored to ensure reasonability of the original provision.

23. COMPARATIVES AND PRIOR YEAR ADJUSTMENTS

Where appropriate, adjustments have been made to the comparative information to conform to changes in the current year's disclosure. The following prior year adjustments were made:

In 2008 accrued interest and dividends of R2,178,378 were disclosed as trade and other receivables (interest receivables). The unit trust price as at 31 December included the value of the interest and dividends and the Society's total asset value was thus overstated with R2,178,378. The correction was now made to the 2008 financial information.

The following prior period adjustments were made:

	2008 (restated) R	2008 (as previously stated) R
Revaluation reserve	(2,623,089)	(444,711)
Trade and other receivables	1,831,853	4,010,231

The necessary changes were made to the statement of cash flows and the statement of changes in funds and reserves due to the changes in the above amounts.