

ANNUAL FINANCIAL RESULTS of the Discovery Health Medical Scheme

FOR THE YEAR ENDED 31 DECEMBER 2012

Number of **LIVES COVERED**

up **5%**

2 469 023

Net **SURPLUS**

up **38%**

R789 million

Members' funds in **RESERVE**

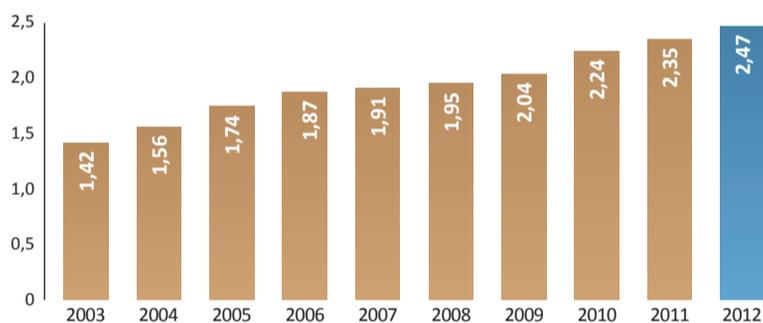
up **11%**

R8.2 billion

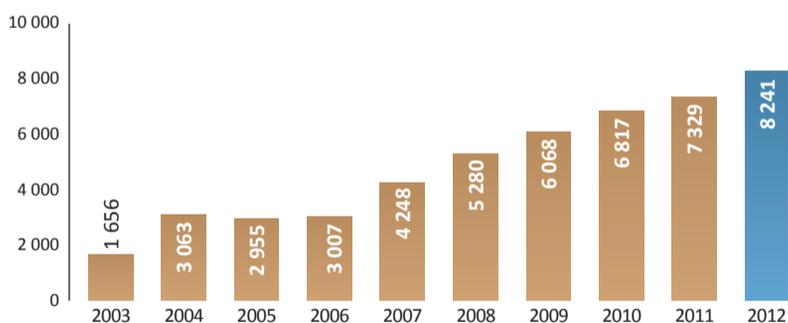
OVERVIEW

The medical schemes environment in South Africa continues to face significant challenges, including slow overall growth and healthcare costs rising above consumer price inflation. Cost pressures in healthcare are a global phenomenon, and arise from many factors, including an ageing medical scheme population, the increasing burden of chronic disease, and the impact of high cost new medicines and technologies. Against this complex and challenging background, the Discovery Health Medical Scheme continued to deliver financial stability, predictability and continuity to its members during the 2012 benefit year. The Scheme's core objective is to ensure that all its members have access to high-quality, cost-effective healthcare cover on a sustainable basis, and to contribute to building a better healthcare system for its members and all other stakeholders. This objective is underpinned by best practice governance, sound financial management and effective risk management initiatives. The result of these various efforts has been a strong performance across all aspects of the medical scheme for the year under review.

Increase in lives covered by Discovery Health Medical Scheme (millions)



Growth in Discovery Health Medical Scheme reserves (R millions)



Key performance highlights for the year under review

- The Discovery Health Medical Scheme achieved a strong financial performance, recording a net surplus (including investment income) for the year of R789 million which contributed to the R8.2 billion in reserves.
- The Scheme added 114 672 new beneficiaries, an increase off an already high membership base, ending the year with 2 469 023 beneficiaries covered. The Scheme now covers 51% of all beneficiaries in the open medical scheme industry, and 30% of the total medical scheme industry.
- The Scheme continued to deliver on its objective of reducing non-healthcare expenditure. For this reason, administration fees have been the only cost component that has decreased in real terms. All other areas of relevant healthcare expenditure continue to increase above CPI. During 2012, fees paid by the Scheme to the Administrator increased by 2.6%, compared to the average CPI for 2012 of 5.6%. This represents a real reduction of 3.0% due to ongoing reductions in administration fees which have been negotiated with Discovery Health (Pty) Ltd.
- The substantial membership growth during 2012 has placed additional pressure on the Scheme to meet its statutory reserve level – for every new member which joins, the Scheme has to hold 25% of that member's annual gross contributions in reserve. The Scheme has, however, achieved a solvency level of 23.41% which is slightly lower than the statutory requirement, but in line with the solvency trajectory agreed with the Council for Medical Schemes. The Scheme is expected to reach the 25% solvency level in 2015. To illustrate the financial strength and stability of the Scheme, member reserves totaled R8.2 billion for the period under review.
- During 2012, the Discovery Health Medical Scheme continued its commitment to providing its members with rich benefits and the widest plan choices, at the most competitive contributions. The Scheme is also expanding access to more affordable healthcare cover to the lower income market – the KeyCare plans now comprise over 400 000 lives.
- The competitiveness of the Scheme's benefits and contributions is demonstrated in both its ongoing strong membership growth, and in the low lapse rate, which reduced from an already low 4.3% in 2011 to 4.1% in 2012.
- Once again the Scheme achieved an AA+ credit rating by independent credit rating agency Global Credit Ratings for its claims paying ability – this is the highest rating a medical scheme can achieve in South Africa. The Scheme has achieved this rating for the past 12 years and is the only open scheme that has achieved this rating.
- The Discovery Health Medical Scheme and its administrator, Discovery Health (Pty) Ltd, have introduced a range of technological and service innovations aimed at ensuring quality of care for members, greater control of costs and the improvement of members' experience in the healthcare system. This includes smartphone applications for members, and the HealthID application for health professionals.

Note: The financial information published in this advertisement is subject to acceptance by the Registrar of Medical Schemes.

Details of the Annual General Meeting

Date: Thursday, 20 June 2013

Time: 10:00

Venue: Discovery, Auditorium, Ground Floor, 155 West Street, Sandton

Further information about the Annual General Meeting and the agenda will be published in the major national newspapers and communicated directly to members. Information will also be available on the Scheme's website at www.discovery.co.za by 29 May 2013.

The 2012 Integrated Annual Report including the 2012 Audited Annual Financial Statements, and minutes of the 2012 Annual General Meeting are available at www.discovery.co.za. It will also be available at the following customer service centres from 2 May 2013:

Johannesburg: 16 Fredman Drive, Sandton

Pretoria: Corner of Oak and Tegel Avenues, Highveld Techno Park, Centurion

Cape Town: Knowledge Park, Heron Crescent, Century City

Durban: 41 Invubupark Place, Riverhorse Valley, Business Estate, Durban

Port Elizabeth: BPO Building, Coega IDZ, Zone 4

For more information, please visit www.discovery.co.za



Michael van der Nest
Chairman



Milton Streak
Principal Officer

Governance and trustee nominations

The Board of Trustees of the Discovery Health Medical Scheme is responsible for the stewardship of the Scheme, by focusing on sound governance and management as well as global best practice outsourcing principles. The Trustees are the representatives of the Scheme's members and 50% of the total number of Trustees is elected by members from the membership base. A main focus of the Trustees is to drive continuous innovation at all levels of strategy and operations, ensuring that members receive maximum value for the contributions they pay.

At the 2013 Annual General Meeting, members also need to elect four Trustees to serve on the Board of Trustees of the Discovery Health Medical Scheme. This is an important governance process which requires members to nominate candidates as prescribed by the rules of the Discovery Health Medical Scheme. It is important that members who are nominated as candidates have the required knowledge and skills to oversee and manage a complex entity such as the Discovery Health Medical Scheme. Members have access to full details of the trustee nomination process which is published on www.discovery.co.za to familiarise themselves with the duties and responsibilities of being a Scheme Trustee and how to submit nominations to the Scheme's nomination committee.

Nominations for candidates must be submitted to the Principal Officer at dhmsnominations@discovery.co.za or posted to: The Principal Officer (Trustee Nominations) PO Box 786722, Sandton 2146. Nominations can also be delivered to 16 Fredman Drive, Sandton, in a clearly marked envelope for the attention of the Principal Officer (Trustee Nominations). Nominations close at 17:00 on 20 May 2013. Please visit www.discovery.co.za for detailed information about the nomination process.

The list of eligible candidates will be made available on the Scheme's website (www.discovery.co.za) from 29 May 2013 following the vetting process by the Scheme's nomination committee.