

Minutes of the 20th Annual General Meeting of Discovery Health Medical Scheme held on 6 June 2014, 12:00 in the Discovery Auditorium, 155 West Street, Sandton

Present

The attendance register is available at the office of the Principal Officer. In attendance were 141 members.

1. Welcome and quorum

The Chair of the Board of Trustees, Mr Michael van der Nest SC, opened the meeting and welcomed all present to the 20th Annual General Meeting (“AGM”) of Discovery Health Medical Scheme. In terms of Rule 25.1.3 of the Scheme Rules at least 15 members [present] are required to constitute a quorum of the meeting. A total of 141 members were present in person and the meeting was therefore duly constituted.

2. Confirmation of the agenda for the meeting

The Chair presented the agenda for the meeting and requested approval thereof.

The agenda was proposed for approval by Dr J Broomberg and seconded by Mr E Stipp.

3. Minutes of the 2013 AGM held on 20 June 2013

The Chair proposed that the minutes of the 19th AGM of the members of Discovery Health Medical Scheme (“the Scheme”) held on 20 June 2013 be confirmed. He advised the meeting that a draft copy of the minutes was submitted to the Board of Trustees who resolved that the minutes were an accurate reflection of the proceedings and recommended the approval thereof by the AGM. The draft minutes were also published on the Scheme’s website. The minutes were proposed for approval by Mr K Tokarzewski and seconded by Mr G Le Roux.

4. 2013 Annual Financial Statements and Scheme Governance

4.1 Financial Performance of the Scheme

The Chair requested Mr Milton Streak, Principal Officer of the Scheme, to report on the financial performance of the Scheme. Mr Streak reported and indicated the key measures at year end. These were:

- The Gross Contribution Income was R40, 463 billion (2012: R35, 195 billion), which was a 14.97% increase compared to 2012;
- The number of members at year end was 1, 191, 987 (2012: 1, 140 ,090), which was a 4.55% increase compared to 2012;
- The number of lives at year end was 2, 564, 313 (2012: 2, 469, 023), which was a 3.9% increase compared to 2012;

- The surplus generated was R1, 534 billion (2012: R788, 790 million), which was a 94.54% increase compared to 2012;
- The Solvency reserves per Regulation 29 was R9, 833 billion (2012: R8, 241 billion), which was a 19.33% increase compared to 2012.
- The Solvency for the Scheme was 24.30% (2012: 23.41%).

Mr Streak reported on the Scheme's strong membership growth. The net healthcare result was R860 million compared to R 187 million in 2012. The year ended with a net surplus of R1, 5 billion. Mr Streak highlighted the importance of continued strong membership growth to the sustainability of Scheme. He reported that 3 amalgamations contributed to the increase in the number of lives to 2.59 million. There was a consistent pattern of stable plan distribution and stability in plan movements. In 2013 there were 3.2% downgrades; 3.3% upgrades and no change in 93.6% of the plans. There was a continued need for growth in younger members as it impacted positively on the age profile of the Scheme. The average age of membership was approximately one year younger than the industry average. For every one year increase in the average age of the Scheme's membership a 1.5% to 3% increase in contributions can be expected.

Mr Streak highlighted the Scheme's significant financial strength and stability. The Scheme's reserves of R9, 9 billion were higher than the reserves of the next nine largest open schemes combined. The Scheme has maintained the highest possible credit rating of AA+ for 14 consecutive years. The Scheme was ahead of its solvency plan and is expected to achieve the statutory 25% solvency margin by 2015. Mr Streak provided a breakdown of the Scheme's claims expenditure of R26, 3 billion. The expenditure in respect of health professionals was R11, 0 billion (6.6 million practitioner visits and 7.9 million specialist visits); expenditure in respect of Hospitals was R12, 6 billion (592 000 hospital admissions; and 1.9 million days spent in hospital); and expenditure in respect of Medicine was R2, 2 billion (465 000 lives registered for chronic medicine).

The Scheme experienced lower costs of care compared to other open schemes. This was due to significant price and contract advantage in hospitals and pathology; superior risk management across all claim lines; and the impact of Vitality. The impact of Vitality was significant as in the absence of Vitality claims expenses would have been approximately R1, 2 billion higher. The Scheme's contribution increases were consistently lower than other open schemes since 2008 (average 14.3% lower than the market). The contributions were also the lowest across all plan types.

Mr Streak reported that a lot of work had gone into covering gaps in healthcare cover for Scheme members. The Scheme benefits focus on comprehensive cover for critical care. He reported on the value of the cover provided by the KeyCare plans. Mr Streak acknowledged the good work done by Discovery Health (Pty) Ltd. which is indicated by the scale of the Scheme's operations. He indicated that in every working day, 97 babies were born to members of the Scheme; 1 799 hospital admissions processed; 177 457 claims processed; 46 489 claims handled; R133 million paid out in claims; and 1 250 new lives join the Scheme. The services provided were continuously measured to ensure the best performance. A reduction in administration errors was observed over the period.

In respect of Governance, Mr Streak highlighted the profile of the Board Trustees and the various board committees. He highlighted the elements of the integrated best practice outsourcing model applied by the Scheme which included transactional governance and relational governance elements. Mr Streak highlighted the key findings of the Scheme's Operating Model and Governance Review, performed by Deloitte Consulting, which highlighted that the Scheme has a strong independent Board with no governance failures. The findings suggested that an integrated model was a much more efficient operating model. Deloitte calculated that for every R1 spent on administration and managed care fees, R1, 77 – R2, 02 of added value was produced for the Scheme.

Mr Streak highlighted the Scheme's strategic priorities for 2014. These were:

1. Further enhance the Scheme's outsourcing business model based on international outsourcing best practice principles;
2. To maintain the Scheme's industry leadership position and competitive advantage;
3. Continue to provide rich benefits and contribution stability across the product range;
4. Continued investment in a unique and superior service experience for Scheme members and healthcare providers at every touch point in the healthcare system;
5. Facilitate the continuous improvement of quality of healthcare provided to Scheme members;
6. Implement more refined stakeholder relations management strategies and plans; and
7. Maintain overall focus on best practice governance.

Mr Streak indicated that objective 5 was fundamental and key for the Scheme. In conclusion Mr Streak summarised the Scheme's robust performance during 2013.

The Chair thanked Mr Streak for his report.

4.2 Discovery Health (Pty) Ltd. strategic focus areas

Dr Jonathan Broomberg echoed Mr Streak's report on the Scheme's outstanding performance. Dr Broomberg highlighted the key challenges facing the Scheme and the South African private healthcare system. These included medical inflation which was rising faster than consumer price inflation; the rising burden of lifestyle diseases; and variable quality of care and value for patients. Dr Broomberg noted that medical inflation was a global issue. He indicated that in South Africa medical inflation was not only due to tariff increases as volume of services was also a critical cost driver. These volume drivers comprised of supply-side drivers and demand-side drivers. Dr Broomberg noted that the ageing and increasing lifestyle disease burden were also driving costs. Factors causing this was for example smoking which resulted in 60% of deaths worldwide. Dr Broomberg noted that another factor was waste in the private sector due to variable quality and value delivered to patients in the healthcare system. He noted the significant increase in fraud recoveries and savings within the Scheme.

Dr Broomberg noted Discovery Health (Pty) Ltd's visions and strategies for the Scheme. This included having the lowest healthcare costs of any medical scheme in South Africa; making members healthier; building a Discovery healthcare system that ensured superior quality and value for members; best service experience and seamless patient journeys through the healthcare system; and ensuring outstanding financial performance and sustained healthy growth. Dr Broomberg indicated that effective medicines management saved the Scheme R600 million per year. Discovery Health (Pty) Ltd's managed healthcare interventions and Vitality's impact saved the Scheme R4.7 billion per year. Dr Broomberg indicated that in using scale, Scheme members also have access to a range of exclusive discounts through Discovery Health (Pty) Ltd's partnerships. The Scheme members in this respect saved R95 million in 2013 through the use of MedSaver (Clicks); ChroniCare (Dischem); Optometry (Optometry network); and Stem cell cryogenics (netcells® Biosciences). Dr Broomberg reported that based on information extracted from the CMS Annual Returns, cost inflation within the Scheme was lower than all other open schemes. He highlighted the administration and managed healthcare fees (2008 – 2014) trajectory in nominal and real terms and reported that the Trustees had negotiated lower rates with Discovery Health (Pty) Ltd. The nominal increase per year was 4.2% with a real decrease of 2.2% per year.

In respect of making members healthier Dr Broomberg advised this would continue to be achieved through Vitality. He noted the benefits of the early screenings which results in a longer life expectancy. In addition the screenings detect cancer cases earlier and reduce cost of treatment. Dr Broomberg reported on the new Discovery Wellness experience for Scheme members through participating employers. This development made the Scheme more attractive to large employer groups.

Dr Broomberg reported on call rates and claims turnaround times noting that Discovery Health (Pty) Ltd's first call resolution rate outperforms the industry average and was currently 83% (industry: 68%). Its claims efficiency was 4.84 days from receipt of claim to payment to the health professional; 1.75 days from receipt to payment of member; and 0.17 days to process the claim on receipt. He reported that for the 7th year in a row Discovery Health (Pty) Ltd. received the FIA Healthcare "Product Supplier for the Year" award for best service performance in the industry.

Dr Broomberg reported on the progress of the development of the digital eco-system for members and doctors and highlighted the benefits of the system. He noted the system was years ahead of the local market and aligned internationally. Dr Broomberg further reported on the development of the Discovery Member Application ("App") which included extensive new features. He also reported on the partnership with the Cleveland Clinic in respect of the "MyConsult" online second opinion programme facility. This gave doctors access to second opinions on complex cases from international healthcare experts and gave members peace of mind. Dr Broomberg reported that the Discovery MedExpress service was expanding to include specialised high cost medicines. This was valuable, as it allowed members to avoid co-payments. Dr Broomberg highlighted the Scheme's sustained high growth rates coupled with low lapse rates. He advised that the loss making benefit options were being addressed. Dr Broomberg in closing thanked all

members and committed to continue to work hard in the interest of the members to build a sustainable scheme.

The Chair thanked Dr Broomberg for his report.

4.3 Acceptance of the 2013 Discovery Health Medical Scheme Annual Financial Statements

The Chair proposed that the 2013 Discovery Health Medical Scheme Annual Financial Statements for the financial year ending 31 December 2013 be accepted. Mr E Stipp seconded the acceptance.

5. Governance

5.1 2014 Trustee remuneration

The Chair noted that the Scheme's Trustee remuneration policy has been aligned with remuneration best practice and followed the guidelines stipulated in the King 3 Code of Corporate Governance. The DHMS Remuneration Policy stipulates that Trustees are remunerated on the following basis:

- 1) a fee per meeting; and
- 2) an annual base fee, paid quarterly in arrears.

The Remuneration Committee considered a remuneration report to the Scheme, prepared by PricewaterhouseCoopers, at the end of 2013. The report indicated that remuneration increases for 2014 were expected to be between 6% and 6.5%. The Remuneration Committee recommended to the Board a 5.5% increase for Trustee fees for the 2014 financial year, which was a below inflation increase for the 2014 financial year.

The Chair proposed that the 2014 Trustee remuneration increase of 5.5%, as recommended by the Remuneration Committee, and supported by the Board, be approved for the 2014 financial year. Mr J Gardner seconded the proposal. The 5.5% increase in the Trustee remuneration was voted on by ballot.

5.2 Confirmation of Trustee appointment

The Chair advised the meeting that in terms of Rule 17.3 of the Scheme Rules, the Board may appoint 2 (25% of the total number of trustees) Trustees and have their appointment presented for confirmation by members at the first annual general meeting following their appointment.

In terms of Rule 17.5, retiring members of the Board are eligible for re-election (or in this case re-appointment), provided that no person shall serve more than two consecutive terms. Notwithstanding this however, a person will be entitled to serve more than two terms in his/her lifetime.

Mr Giles Waugh's first three year term ended on 13 April 2014. Mr Waugh has indicated his availability to be re-appointed for a second term, and the Board exercised its right in terms of Rule 17.3 and re-appointed Mr Waugh as a Trustee at a Board meeting held on 2 June 2014.

Mr Waugh is an actuary and his skills and expertise have been invaluable to the Board during the last three years. It is for this reason that the Board requested members to support the Board's decision to re-appoint Mr Waugh by confirming his appointment.

The Chair proposed that the Board appointment of Mr G Waugh be confirmed by the members. Mr E Stipp seconded the proposal. The confirmation of the Board appointment of Mr G Waugh as Trustee was voted on by ballot.

5.3 Appointment of Auditors

The Chair proposed that PricewaterhouseCoopers be appointed as auditors for the ensuing year. Ms D Naidoo seconded the approval of the appointment.

6. Motions

The Chair advised the meeting that in terms of Rule 25.1.5, members are entitled to submit motions to be placed before the meeting. The Chair explained the criteria for a motion which was published on the Scheme's website. The Chair reported that only one valid motion was received. The motion was from a member, Mr J Egdes. The motion was printed on the ballot and read as follows:

"All trustees, both current and future declare under oath, binding on their conscience that: they were duly elected by the members of Discovery Health Medical Scheme with votes garnered by them without the assistance of any related parties, especially parties of or related to the administrator; and that they have and will act in all matters solely in the interest of and for the benefit of the Scheme and its members."

The Chair requested Mr Egdes to speak to his motion. Mr Egdes thanked the Administrator for their good performance. Mr Egdes noted the part that was unclear about his motion is where it states "or any related parties". He clarified what he meant and requested that the Trustees, both present and future take an honest moral decision to indicate that they have been voted in by way of an honest vote and that their role is to look after the members and the Medical Scheme. In support of his motion, Mr. Egdes queried the independence of the trustees, particularly in light of the fact that very little of the intellectual property used to run the Scheme is owned by the Scheme. He added that his intention with the motion was to prevent large 'blocks' of proxy votes."

The Chair requested the meeting if there was anyone else to speak to the motion.

Mr M Compagnoni and Mr R Rusconi confirmed that they were in support of the motion. In supporting the motion, Mr M Compagnoni expressed concern that the trustees and

the Scheme did not have comparable resources to those of the Administrator, to be able to stand up to the might of the Administrator.

In expressing his support for the motion, Mr R Rusconi asked whether trustees were sufficiently applying their minds to the fact that members of the Scheme may be contributing to the success of Discovery Holdings' other businesses, such as Discovery Insure, instead of increasing the Scheme's reserves. He also enquired whether there may be truth in something which had come to his attention, namely whether there was any 'profit sharing' agreement between the Administrator and a hospital group. In response, Dr Broomberg stated emphatically that there is no such arrangement. He explained however that there are 'risk-sharing' contracts, but these are directly between the Scheme and the hospital company, and they are audited. The Chair indicated that he had no knowledge of any such arrangements.

The Chair emphasised that the Trustees are all independent and that the independence of the Trustees is completely and utterly beyond reproach. He stated that the Trustees do not work or consult for the Administrator. In turning to the motion itself the Chair mentioned that it appeared that Mr Egdes has a concern if any person related to the Discovery Group voted in favour of a Trustee, and that seems to be the essential issue that Mr Egdes is concerned about.

The Chair explained that the role of Trustees is governed by the Medical Schemes Act ("the Act") and its Regulations; and each scheme has its own independent Rules and the Rules are registered by the Council for Medical Schemes.

The Chair continued by highlighting that, when a Trustee is appointed, the Trustee is required to declare any conflict of interest upfront. Furthermore, as a standard and recurring agenda item at each and every Board meeting, Trustees are required to declare any conflicting interest.

Board meetings constitute both open and closed sessions. During closed sessions, the Administrator's attendees excuse themselves and issues pertaining only to the Board and Scheme are discussed. The Trustees hold the Administrator to account on all issues pertaining to the administration of the Scheme.

The Chair further indicated that the voting by a member is a secret ballot and will remain that way. The votes are vetted and counted by PwC who makes the results available. The Trustees do not know who voted for or against them and one cannot reasonably expect a Trustee to take an oath about something that he/she has no knowledge of. Mr G Bauer, a member, opposed the motion on the basis that he would not want to undo the good work being done to date. The motion was voted on by ballot.

The Chair reported that a motion was received from, a member, Ms S Williams and was a request to obtain acceptable cover for treatment of the Prescribed Minimum Benefit condition: Infertility. The Chair advised that the motion did not comply with the requirements for a valid motion and ruled that it be treated as a submission.

The Chair permitted Ms S Williams to speak to her submission who thanked the Scheme for the opportunity. The Chair also requested Dr B Modi (DHMS' Clinical Executive) to provide clarity in particular on the fact that the Scheme's benefit for infertility is aligned with the Prescribed Minimum Benefit provisions, the Council for Medical Schemes' clinical guidelines and Industry practice in general.

Prof Zephne van der Spuy, a Gynaecologist and Trustee also spoke and advised that in the public sector there are infertility facilities at Tygerberg Hospital; Groote Schuur Hospital; Bloemfontein International Hospital; and Steve Biko Hospital. She mentioned that at Groote Schuur Hospital there is a sympathetic administration, and they have been prepared to support the service provided to patients. Patients, however, still have to pay for all their medication, so the treatment is still completely inaccessible to a vast majority of patients in the public sector. She further advised that most large public sector hospitals offer basic infertility investigations and many of them will offer no treatment at all unless the patient can pay for her own medication. She advised that infertility is a much underserved problem, but unfortunately even a sympathetic environment like Groote Schuur Hospital can still not afford to service many of the patients who may benefit from it.

The Chair invited Ms Williams to engage with the Scheme on this issue going forward and not to wait for an AGM to raise matters of this nature.

7. General

7.1 Aggregate of amounts claimed by a member

Mr J Somers-Vine, a member, requested whether there was a possibility for members to receive aggregated statistics indicating the total amounts claimed but not paid during a year. Dr Broomberg indicated that DH has statistics of all claims submitted and paid or not paid due to the claim not covered or partially covered. In respect of the non-hospital claims, an analysis could be done and provided to the Trustees for consideration with the view to have it published in the Scheme's annual report or on the Scheme's website.

In response to a question by a member, the Chair clarified that motions are not for operational issues. These should be raised outside of an AGM, with the Administrator or the Scheme staff, as they arise.

8. Closing

Mr Compagnoni, a member, expressed a vote of appreciation to the Board of Trustees and Discovery Health (Pty) Ltd. for the good work and encouraged the parties to continue to reduce the high costs of contributions and to continue the fight against fraud and to reduce the non-medical costs, which in turn directly affect the levels of members' contributions.

The meeting closed at 14h30 with no further business for the day.

Confirmed a reasonable reflection of the discussions at the meeting.

Chairman

Date