

1. DISCOVERY HEALTH MEDICAL SCHEME (DHMS/SCHEME) REMUNERATION GOVERNANCE

The main objective of the Scheme is to create long-term value for its members and stakeholders. An appropriate system of corporate governance is one of the mainstays of creating and sustaining such value. Elements of good corporate governance include fairness, accountability, responsibility and transparency, and as such the King III Code on Corporate Governance for South Africa requires corporations to develop astute protocols to ensure that the principles of corporate governance are engendered into the governance and management practices of the Scheme.

Long-term and sustainable stakeholder value is created via the Scheme's human capital contingent, and the co-ordination and control of this element of corporate governance constitutes one of the most important strategic focus areas that must be addressed and managed by the Scheme on an ongoing basis.

The Scheme therefore strives, through its remuneration policies, to provide an ethical business framework for the establishment of protocols to attract, motivate and retain high calibre people, with above average industry ability and leadership potential, to effectively manage the Scheme's interests and take care of members' interests whilst also ensuring that these persons are remunerated fairly and responsibly in accordance with the recommended remuneration practices stipulated in the King III Code on Corporate Governance.

Legislative Framework for Remuneration Policies

The provision of the Scheme's remuneration policies that are respectively applicable to the Trustees and employees of the Medical Scheme relates to and upholds the obligations of the following legislation and regulations:

- King III Code on Corporate Governance and Code of Ethics ("King III Code")
- Medical Schemes Act 131 of 1998, as amended, ("the Act") and the Discovery Health Medical Scheme Rules
- Council for Medical Schemes Guidelines for Trustee Remuneration
- The Companies Act 71 of 2008
- The Promotion of Equality and Unfair Discrimination Act 4 of 2000
- The Labour Relations Act 66 of 1995
- The Basic Conditions of Employment Act 75 of 1997 and
- The Employment Equity Act 55 of 1998.

Please note that the Scheme shall refer to the provisions of the King III Code for matters that are not covered in the scope of or are addressed in the Act and the Scheme Rules.

The provisions relating to remuneration and reward in the Basic Conditions of Employment Act, the Labour Relations Act and the Employment Equity Act are only applicable to persons employed by the Scheme and not to the Trustees of the Scheme who are appointed/elected on a non-executive basis and are not employees of the Scheme.

Remuneration Governance

A sound governance culture addresses many items including conflicts of interest, risk management and fiduciary duties.

The primary objective of the King III Code is to provide best practice recommendations to enable entities in South Africa to improve their corporate governance practices, which includes and has bearing on the remuneration practices of corporations. The following are the over-riding principles contained in the King III Code that promote sound and effective remuneration governance practices:

- Principle 2.25. Companies should remunerate directors and executives fairly and responsibly.
- Principle 2.26. Companies should disclose the remuneration of each individual director and prescribed officer.
- Principle 2.27.1 Shareholders should pass a non-binding advisory vote on the company's remuneration policy.

The Scheme's Remuneration Governance Model

The Scheme adheres to the principles and practices espoused in the King III Code in order to protect all its stakeholders. The objective of the Scheme's Remuneration Governance Model recorded in its Remuneration Policies, is to stipulate the measures and or practices that must be implemented by the Scheme to ensure that the efforts and performance of the employees of the Medical Scheme are aligned with the long-term performance of the Scheme and the enhancement of sustainable stakeholder value. Therefore a significant portion of the Scheme's executive employees' total potential remuneration is performance related.

In line with the recommended practices in the King III Code, the Scheme has put in place the necessary governance structures, measures and procedures to ensure that those charged with the fiduciary responsibility of formulating and upholding the provisions of these policies, discharge their duties with due care and skill and are accountable to the Scheme in this regard.

Delegation of Responsibility of Oversight of Scheme Remuneration

The Board of Trustees of the Scheme is responsible for the development and implementation of a Remuneration Policy for the employees of the Scheme, and a Remuneration Policy for the Board of Trustees and Board Committee members of the Scheme. The Board of Trustees shall in turn delegate responsibility for oversight of the Scheme's remuneration practices to the Remuneration Committee.

The Remuneration Committee

Remuneration Committees play an important role in ensuring an objective approach to the management of remuneration and more specifically executive pay practices. Executive Management is responsible for the day-to-day running of the Scheme with the aim of maximising value for members and stakeholders. The Board of Trustees is responsible for strategic oversight and to review the implementation of strategy by executive management of the Scheme, and to ensure that effective mechanisms and controls are in place to protect the interests of the members of the Scheme.

These responsibilities are particularly important where there is potential for unfair influence or conflicts of interest in the setting of executive remuneration.

The Remuneration Committee acts under the delegated authority of the Board of Trustees of the Scheme. The role of the Remuneration Committee is to provide an independent influence on remuneration decisions made in respect of the Board of Trustees and Board Committee members and Employees of the Scheme.

This committee is constituted of Trustees and independent Board Committee members, which ensures that the work of this committee is free from conflict, which in turn provides a substantial degree of security for members. The Committee is also assisted by independent remuneration advisors and experts. The role of the Remuneration Committee is to make recommendations to the Board of Trustees regarding the remuneration strategy, policies and practices of the Scheme.

Adoption and Approval of the Scheme's Remuneration Policies

The Scheme has established remuneration policies for the employees, the Board of Trustees and Board Committees.

The objective of the remuneration policies is to provide a legal and policy framework against which all remuneration decisions are made, validated, implemented, approved and reported by the Scheme.

To enable Scheme members to express their views on the Scheme's Remuneration Policy for Trustees, the Policy will be tabled at the Scheme's AGM for a non-binding advisory vote.

The Remuneration policy for employees must be approved by the Board of Trustees, based on the recommendation by the Remuneration Committee.

Mitigation of Conflict of Interests

The King III Code advises that the Board of an entity should reflect a balance of power, represented by a majority of Non-Executive Directors. In the case of the Scheme, all Trustees are non-executives and therefore "Independent Trustees". In accordance with best corporate remuneration governance practices, Trustees hold non-executive status within the Scheme and are therefore, in terms of the Scheme's Remuneration Policy, not permitted to be paid consulting fees for consulting services rendered or to participate in the Scheme's incentive programme. This ensures that Trustees are able to act independently of any personal interest when making a fiduciary decision for or on behalf of the Scheme.

Market Benchmarking

In accordance with the King III Code the remuneration of the Board of Trustees, Board Committee members and Employees of the Scheme are benchmarked periodically through independent review. The Scheme's Remuneration Committee uses market trends in professional fees/rates for professionals in the field of law, actuarial science, medicine and commerce for determining Trustee fees and market trends and independent benchmarking of remuneration of positions in the financial services industry, for employees. This provides the Scheme with information relating to market trends in remuneration practices and ensures that the Scheme compensates Trustees and employees in accordance with appropriate market norms.

Disclosure of information regarding remuneration

In accordance with recommended practice in the King III Code the remuneration policies for the Board of Trustees of the Scheme shall be disclosed to members at the Annual General Meeting of the Scheme. Also in accordance with recommended practice in the King III Code the remuneration of the Board of Trustees shall also be disclosed to the members at the Annual General Meeting of the Scheme and shall be reported on in the Scheme's Integrated Report.

This information shall be disclosed at least 21 days prior to the AGM. Furthermore, members and the Council for Medical Schemes are provided with details of how the proposed Trustees and Board Committee member fees were determined as well as the details of the independent external advisors who provided advice to the Remuneration Committee on the structuring of Trustees and Board Committee member fees. These practices have been implemented to increase the Board of Trustees' accountability to members of the Scheme in respect to the decisions that they make on the remuneration policies and practices of the Scheme.

2. REMUNERATION POLICY – TRUSTEES OF THE DISCOVERY HEALTH MEDICAL SCHEME (DHMS/SCHEME)

Purpose of policy

This policy contains a description of the core principles of the Scheme's Remuneration Policy for the Trustees and members of the Board Committees.

This policy also includes the provisions asserted in the Remuneration Guidelines published by the Council for Medical Schemes (Circular 41 of 2014).

Scope of policy

The provisions of this policy are binding on the Board of Trustees and Board Committees.

Policy statement

Significant responsibilities and fiduciary risks are borne by Trustees throughout the year, as well as the fact that all the Trustees and Board Committee members are independent professionals who are required to give up substantial amounts of their time to serve the needs of the Scheme and its members. The Scheme therefore strives to remunerate Trustees and Board Committee members appropriately to ensure that the necessary skills are attracted and retained in a complex industry.

The role of the Remuneration Committee

The Remuneration Committee of the Scheme is responsible for recommending to the Board of Trustees and the members of the Scheme the Remuneration Policy, structure and/or fees which the Trustees and Board Committee members are due.

Remuneration of the Board of Trustees of the Scheme

Trustees are entitled to remuneration in respect of services rendered in their capacity as members of the Board as determined and recommended by the Scheme's Remuneration Committee, which is reviewed on an annual basis. Trustees are compensated a market related, but discounted, professional fee commensurate with the level of skill and expertise required in relation to the nature of the duties and concomitant responsibility attributed to the specific role and function of Trustees. The fees take into account the fact that the Scheme is a non-profit entity. Trustees hold non-executive status within the Scheme and are, therefore, in terms of the Scheme's Remuneration Policy, not permitted to be paid consulting fees for consulting services rendered. The remuneration of Trustees is limited to a fee and does not include any additional benefits such as participation in the Scheme's incentive programme. This ensures that Trustees are able to act independently of any personal interest in terms of their fiduciary duties.

The total annual fees payable to Trustees is split into an annual base fee (70%) and a fee per meeting (30%). This recognises the ongoing responsibility of Trustees for the efficient control of the Scheme. The annual base fee is paid quarterly in arrears. The Scheme does not pay Trustees any remuneration or fees for attending conferences or training events over and above the training provider's fees and travel, accommodation and subsistence costs. It is the view of the Scheme that attending a conference or training event is sufficient reward.

Remuneration of Board Committee members

Board Committee members shall be compensated a market related, but discounted, fee commensurate with the level of skill and expertise required in relation to the nature of the duties and concomitant responsibility attributed to the specific role and function of the Board Committee of which he/she is a member, taking into account the fact that the Scheme is a non-profit entity.

Calculation of the remuneration of Trustees and Board Committee members

The Trustees' and Board Committee members' remuneration is based on a professional fee (based on an hourly rate paid) for professionals who are suitably skilled and qualified to serve as Trustees, discounted at an applicable rate to take into account the fact that the Scheme is a non-profit entity. Professional fees are based on the market related fees charged by professionals in the field of law, actuarial science, medicine and commerce and will be benchmarked and adjusted annually. The total remuneration paid to Trustees and Board Committee members is determined by the following elements:

- Number of meetings per year.
- Preparation time for each meeting.
- Duration of meetings.
- Ad-hoc time required by the Chairperson of the Board of Trustees or Board Committees in the execution of his/her duties.
- A discount applied to the professional fee for being a non-profit entity.

Participation in incentive programmes

Trustees and Board Committee members are not permitted to participate in the Scheme's incentive reward programmes.

Reimbursements

Members of the Board of Trustees may be reimbursed for all reasonable expenses incurred by them in the performance of their duties as a Trustee, which shall include, but not be limited to, travel outside of the Johannesburg Metropolis or Gauteng. In order to be reimbursed for travel expenses the Trustee must complete a Reimbursement Claim Form and submit the original tax invoices of the travel expenses he/she is claiming.

Market benchmarking

In accordance with the King III Code the remuneration of Trustees and Board Committee members are benchmarked periodically through independent review. The Scheme's Remuneration Committee uses market trends in professional fees/rates for professionals in the field of law, actuarial science, medicine and commerce for determining Trustee and Board Committee member fees. This provides the Scheme with information relating to market trends in remuneration practices and ensures that the Scheme compensates Trustees and Board Committee members in accordance with appropriate market norms. The benchmarked professional fees will be discounted to recognise the non-profit status of medical schemes.

Approval of Trustees' and Board Committee members' remuneration

The Scheme's Trustee remuneration for each financial year going forward is reviewed and recommended by the Remuneration Committee to the Board of Trustees for provisional approval and thereafter should be approved through a vote by members at the AGM of the Scheme. The Scheme's members and the Council for Medical Schemes shall be provided with the required information pertaining to the proposed remuneration of the Board of Trustees and Board Committee members at least 21 days prior to the AGM.

Disclosure of Trustees' and Board Committee members' remuneration

The principles of maximum transparency and disclosure regarding remuneration are endorsed by the Scheme. The members of the Board of Trustees shall disclose annually in writing to the Registrar any payment or considerations made to them in that particular year by the Scheme. Furthermore, the remuneration of the Trustees and Board Committee members shall also be disclosed to members of the Scheme and shall be reported on in Scheme's Integrated Annual Report.

The CMS and members shall also be provided with details of how the proposed Trustees' and Board Committee members' fees were determined, as well as the details of the independent advisers who provided advice to the Remuneration Committee on the structuring of Trustees' and Board Committee members' fees.

Remuneration payment procedures

All fees shall be paid directly to the Trustee into his/her bank account, the details of which are to be provided by the Trustee to the Scheme Secretary.

Application of Trustee liability insurance

The Scheme must take out and maintain an appropriate level of professional indemnity insurance and fidelity guarantee insurance.