

For the benefit of our members

HIGHLIGHTS OF THE DISCOVERY HEALTH MEDICAL SCHEME'S RESULTS FOR 2016

This document contains highlights of the Scheme's performance for the year ended 31 December 2016, extracted from the 2016 Integrated Annual Report. The financial information has been extracted from and is in agreement with the Annual Financial Statements, audited by PricewaterhouseCoopers Inc.

The full 2016 Integrated Annual Report is available at www.discovery.co.za/portal/medical-aid/annual-reports-and-financials.

Discovery Health Medical Scheme (DHMS) is an open medical scheme. Any member of the public can join the Scheme, subject to its Rules¹. Covering 2 735 191 beneficiaries at 31 December 2016, it is the largest open medical scheme in South Africa with an open medical scheme market share of 55%².

The Scheme is a non-profit entity governed by the Medical Schemes Act³ (the Act), and is regulated by the Council for Medical Schemes (CMS). The Scheme belongs to its members and an independent Board of Trustees (the Board) oversees its business.

The Scheme operates by way of a formal contractual arrangement with Discovery Health (Pty) Ltd, with its business model based on Vested[®] outsourcing.

We exist for our members

The Scheme's purpose is to care for our members' health and wellness by engaging the brightest minds and innovative solutions to provide access to affordable, equitable and quality healthcare that meets their needs now and into the future.

87% of contributions received are used to fund member benefits

The Scheme's income is predominantly derived from member contributions and investment returns. In pricing for contributions from members for each year, the Scheme's objective is to return a surplus to meet regulatory requirements as well as to have a cushion against unexpected cost increases. This is in accordance with the fundamental operating principles of a non-profit organisation.

The Scheme's income is used to fund activities to ensure the sustainability of the Scheme as well as those for the support and benefit of members – such as innovation, administration, managed care, financial advisers and the daily operations of the Scheme.

Apart from the reserves and these activities, all of the Scheme's income is used to fund claims.

Key indicators from 2016

AA+

Independent credit rating for claims-paying ability (2015: AA+)

26.33%

Statutory solvency level (2015: 25.98%)

55%

Share of open scheme market (2015: 53%)

5%

Annualised lapse rate (2015: 5%)

2.45%

Average growth in principal members (2015: 3.24%)

2.11

Average family size (2015: 2.12)

2.60%

Managed care as % of gross contributions (2015: 2.62%)

7.68%

Admin fees as % of gross contributions (2015: 7.79%)

8.79%

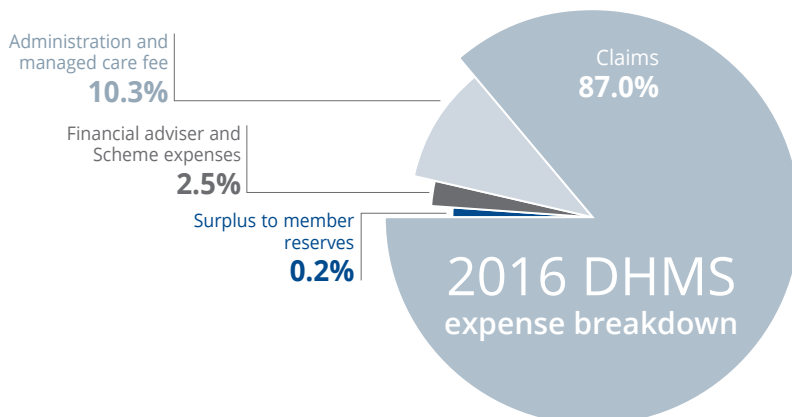
Average return on investments (2015: 6.01%)

8.92%

Pensioner ratio (2015: 8.55%)

34.17

Average age at year end (2015: 33.86)



¹ The Scheme Rules are available to registered users at www.discovery.co.za/medical-aid/scheme-rules.

² Based on beneficiaries, according to the Council for Medical Schemes Annual Report 2015–2016 (www.medicalschemes.com/Publications.aspx).

³ Medical Schemes Act 131 of 1998, as amended.

OUR PRINCIPAL OFFICER'S REVIEW OF THE YEAR



“In 2016, the Discovery Health Medical Scheme demonstrated its ability to weather difficult conditions and manage unexpected events. As the largest and most innovative open medical scheme in South Africa, I believe the Scheme is best placed to continue providing access to affordable, equitable and quality healthcare that meets the needs of our members now and into the future.”

The economic and industry challenges of 2016, experienced during the last of my eight-year tenure as Principal Officer, tested the agility and resilience of the Scheme's highly innovative Vested outsourcing business model. The Scheme responded effectively and timeously to the confluence of tough local economic conditions and industry-specific adverse events and challenges, which threatened the long-term sustainability of the private healthcare funding industry.

The global context for the Scheme's challenges included extreme economic volatility and significant socio-political shifts felt worldwide. From Brexit in the UK to the US presidential elections, the implications of rising nationalism, protectionism and intolerance promise to be far-reaching.

While at times South Africa feels remote, our relatively small formal economy and developing society are highly sensitive to this global turbulence. Moreover, slow economic growth, the implications of the downgrades in the country's credit rating and policy inconsistency, added to the intractable social problems of inequality and poverty, make for an exceptionally tough domestic economic environment.

Looking back at the year, besides the economic indicators, from the first quarter of 2016, the Scheme experienced significant increases in the utilisation of healthcare services, especially in terms of hospital admission rates and benefits. As medical schemes price their contributions in August of every benefit year for the coming year, based on projected and expected funding requirements, there is limited scope for schemes to respond to such unexpected deviations within a benefit year.

In the context of the Scheme's Vested outsourcing business model, which entails active innovation and collaboration between the Scheme and Discovery Health, its Administrator and Managed Care provider, this potential threat was effectively mitigated and managed without compromising access to or quality of care. Any possible implications for our members were extensively communicated and individual members were assisted in ensuring optimal cover for their care.

Discovery Health, through their world-class analytics capabilities and big data informatics, performed extensive early root cause analyses and mapped the unprecedented

increase in utilisation of healthcare services to specific drivers. One of the major contributors was a significant increase in hospital admission rates emanating from several new private hospitals, as well as increases in admission rates at certain established hospitals. The effect on the Scheme, and the industry as a whole, was a significant increase in costly hospital claims.

This impact was felt across open and closed medical schemes in the industry, resulting in some media coverage on the financial state and sustainability of the private healthcare funding industry. The Scheme and Discovery Health also interacted with the Council for Medical Schemes (CMS) and the Competition Commission's Healthcare Market Inquiry (HMI) Panel on the matter.

Against this backdrop, management expected an operating loss compared to budget for the 2016 benefit year. However, the thorough measures put in place by Discovery Health, on behalf of the Scheme, to contain costs while ensuring quality of care and managing the utilisation of healthcare services, were highly effective in protecting members' funds and the financial performance of the Scheme.

That we were able to report a positive operating result of R102 million, investment income (net of return on savings trust assets) of R1 201 million, and a net surplus of R1 305 million for the 2016 year demonstrated that the Scheme has the scale, agility and resilience necessary to manage and withstand unpredictable market conditions. This justifies the trust that our 2.7 million beneficiaries place in the Scheme to fund and facilitate their access to affordable, equitable and quality private healthcare.

Ultimately, it is the quality of the Scheme's relationship with all its stakeholders that supports its ability to fulfil its value proposition and promise to members, while remaining sustainable in the long term. This, in turn, underpins effectiveness, efficiency and viability of the private healthcare ecosystem of which the Scheme is a significant part and contributor. As such, the Scheme will remain committed to balancing the needs and expectations of all its stakeholders in line with its primary objective of providing sustained high value to its members.

It has been a real privilege serving the members of the Discovery Health Medical Scheme over the last eight years. I leave the management of the Scheme in the capable hands of Dr Nozipho Sangweni, who has been a member of the Scheme's governing body and a colleague for several years. Dr Sangweni takes the helm as Principal Officer from 1 January 2017. She does so in challenging times for the Scheme and the industry, as the focus on accessibility, affordability, quality and sustainability of private healthcare becomes ever more important in South Africa. I believe the Scheme has the leadership, the partnerships and the track record to ensure continued value for our members, our other stakeholders and society in general.

My sincere gratitude and thanks are due to the Chairman of the Board of Trustees, Mr Michael van der Nest; the Board of Trustees; the Board Committees; the executive management team; and our counterparts at Discovery Health for their support over the years in what has been an incredibly exciting and meaningful journey in my healthcare career.



MILTON STREAK
PRINCIPAL OFFICER

A word from our new Principal Officer



I am honoured and excited to be taking the helm at Discovery Health Medical Scheme and look forward to a new era, where we are able to leverage the solid market position, resilience, agility and adaptive capabilities of DHMS to continue to

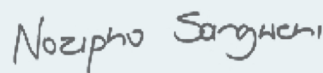
withstand economic uncertainty and pressures, for the health and wellness of our members.

The world-class governance structures and practices of the Scheme, combined with the extensive capabilities of Discovery Health, provide me with a solid foundation.

I look forward to working with the industry through the Health Funders Association, the industry representative body of which the Scheme is a member, and to continuing and growing the positive and cooperative working relationships we have with our regulators, most importantly the CMS, to the benefit of the South African healthcare system.

In line with our statements of purpose and vision, and the values that guide our conduct and interactions as a matter of course, we will continue to focus on our most important stakeholders, our members, by understanding their economic and health challenges. We must take a significant step forward to deepen our competitive advantage, through innovation and in the continued pursuit of excellence, in order to generate value for our members and safeguard their continued access to quality, outcomes-based healthcare.

My thanks to Mr Milton Streak for his many years of dedication to the Scheme, and together with my colleagues, we wish him well in his future endeavours.



DR NOZIPHO SANGWENI
PRINCIPAL OFFICER AS OF 01 JANUARY 2017

I am honoured and excited to be taking the helm at **Discovery Health Medical Scheme**

EXTRACTS FROM THE AUDITED ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION as at 31 December 2016

R'000	2016	2015
ASSETS		
<i>Non-current assets</i>	5 614	1 071
Long Term Employee Benefit Plan asset	5 614	1 071
<i>Current assets</i>	20 864 905	18 897 501
Financial assets at fair value through profit or loss	12 211 677	11 399 332
Derivative financial instruments	54 760	-
Trade and other receivables	2 058 008	1 632 586
Cash and cash equivalents		
- Personal Medical Savings Account trust assets	4 142 672	3 667 456
- Medical Scheme assets	2 397 788	2 198 127
Total assets	20 870 519	18 898 572
FUNDS AND LIABILITIES		
<i>Members' funds</i>	14 234 461	12 929 011
Accumulated funds	14 234 461	12 929 011
<i>Current liabilities</i>	6 636 058	5 969 561
Outstanding claims provision	1 121 394	985 087
Derivative financial instruments	4 376	65 210
Personal Medical Savings Account trust liabilities	4 204 043	3 736 659
Trade and other payables	1 306 245	1 182 605
Total funds and liabilities	20 870 519	18 898 572

STATEMENT OF CHANGES IN FUNDS AND RESERVES for the year ended 31 December 2016

R'000	2016 Accumulated funds	2015 Accumulated funds
Balance at beginning of the year	12 929 011	11 652 804
Total comprehensive income for the year	1 305 450	1 276 140
Reserves transferred from other medical schemes	-	67
Total member funds end of the year	14 234 461	12 929 011

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

R'000	2016	Restated 2015
Risk contribution income	43 626 398	40 066 741
Relevant healthcare expenditure	(38 035 898)	(34 503 627)
Net claims incurred*	(36 613 210)	(33 160 818)
Claims incurred*	(36 772 332)	(33 231 554)
Third party claim recoveries	159 122	70 736
Accredited managed healthcare services (no risk transfer)	(1 407 267)	(1 305 790)
Net (loss) on risk transfer arrangements*	(15 421)	(37 019)
Risk transfer arrangement fees	(366 344)	(344 093)
Recoveries from risk transfer arrangements*	350 923	307 074
Gross healthcare result	5 590 500	5 563 114
Broker service fees	(1 101 648)	(982 874)
Expenses for administration	(4 150 194)	(3 874 896)
Other operating expenses	(236 206)	(198 387)
Net healthcare result	102 452	506 957
Other income	1 524 116	1 033 020
Investment income	1 257 479	1 018 998
Net gains on financial assets at fair value through profit or loss	264 278	6 504
Sundry income	2 359	7 518
Other expenditure	(321 118)	(263 837)
Expenses for asset management services rendered	(31 076)	(31 578)
Interest paid	(290 042)	(232 259)
Net surplus for the year	1 305 450	1 276 140
Other comprehensive income	-	-
Total comprehensive income for the year	1 305 450	1 276 140

* See note 13 to the Annual Financial Statements for explanatory note on change of disclosure.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

R'000	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows generated from operations before working capital changes	151 902	555 793
Working capital changes:		
(Increase) in trade and other receivables	(500 589)	(99 229)
Increase in outstanding claims provision	136 307	139 292
Increase in Personal Medical Savings Accounts	467 384	485 916
Increase in trade and other payables	123 640	151 366
Cash generated by operations	378 644	1 233 138
Purchases of financial instruments	(1 922 170)	(6 176 902)
Proceeds from sale of financial instruments	1 258 510	4 339 081
(Increase) in Long Term Employee Plan Asset	(7 544)	-
Cash transferred from other medical scheme	-	67
Interest received	1 206 486	981 460
Dividend income	50 993	37 729
Interest paid	(290 042)	(232 259)
Net cash flows from operating activities	674 877	182 314
NET INCREASE IN CASH AND CASH EQUIVALENTS	674 877	182 314
Cash and cash equivalents at beginning of year	5 865 583	5 683 269
CASH AND CASH EQUIVALENTS AT END OF YEAR	6 540 460	5 865 583
Cash and cash equivalents comprise		
Personal Medical Savings Accounts trust assets	4 142 672	3 667 456
Medical Scheme assets	2 397 788	2 198 127
	6 540 460	5 865 583

Solvency

The Medical Scheme Act (the Act) requires the Scheme to maintain accumulated funds of 25% of gross annual contributions for the accounting period, in terms of Regulation 29 (2) of the Act.

At 31 December 2016, the Scheme's solvency level of 26.33% (2015: 25.98%) of gross annual contributions was R719 million (2015: R488 million) more than the statutory solvency requirement.

Calculation of regulatory capital requirement

	31 Dec 2016 R'000	31 Dec 2015 R'000
Total members' funds	14 234 461	12 929 011
Less cumulative net gain on re-measurement of investments	-	-
Total net assets (Regulation 29)	14 234 461	12 929 011
Gross annual contributions	54 056 212	49 759 756
Solvency ratio	26.33%	25.98%
Average accumulated funds per member at year end	R10 971	R10 360

R'000

2016

2015

Financial assets at fair value through profit or loss

The Scheme's financial assets at fair value through profit or loss are summarised by measurement classes as follows:

Current assets	12 211 677	11 399 332
- Offshore bonds	1 245 709	1 335 137
- Equities	2 049 834	1 415 647
- Yield-enhanced bonds	3 413 740	3 058 012
- Inflation-linked bonds	610 476	464 574
- Money market instruments	4 891 918	5 125 962
	12 211 677	11 399 332
Reconciliation of the balance at the beginning of the year to the balance at the end of the year:		
At the beginning of the year	11 399 332	9 474 520
Acquisitions	1 922 170	6 176 902
Disposals	(1 127 159)	(4 465 329)
Net gains on revaluation of financial assets at fair value through profit or loss	17 334	213 239
At the end of the year	12 211 677	11 399 332

A register of investments is available for inspection at the registered office of the Scheme.

R'000	2016	2015
Personal Medical Savings Account trust liabilities		
(Personal Medical Savings Account trust monies managed by the Scheme on behalf of its members)		
Balance on Personal Medical Savings Accounts at the beginning of the year	3 736 659	3 250 743
Add:		
Personal Medical Savings Accounts contributions received or receivable	10 429 814	9 693 015
For the current year	10 429 814	9 693 015
Interest on Personal Medical Savings Accounts	287 923	232 141
Transfers received from other medical schemes	13 691	19 815
Less:		
Claims paid to or on behalf of members	(9 942 225)	(9 199 956)
Refunds on death or resignation	(321 819)	(259 099)
Balance due to members on Personal Medical Savings Accounts held in trust at the end of the year	4 204 043	3 736 659

It is estimated that claims to be paid out of members' Personal Medical Savings Accounts in respect of claims incurred in 2016 but not reported will amount to approximately R71 100 056 (2015: R73 978 313).

As at 31 December 2016 the carrying amount of the members' Personal Medical Savings Accounts were deemed to be equal to their fair values, which is the amount payable on demand. The amounts were not discounted, due to the demand feature.

Interest is allocated on these Personal Medical Savings Account balances monthly in accordance with Circular 38 of 2011 and Circular 5 of 2012 issued by the Council for Medical Schemes. The Scheme does not charge interest on negative (overdrawn) Personal Medical Savings Account balances.

R'000	2016	2015
Cash and cash equivalents – Personal Medical Savings Account trust assets		
(Monies managed by the Scheme on behalf of members)		
PERSONAL MEDICAL SAVINGS ACCOUNT TRUST PORTFOLIO		
(Managed by Aluwani Capital Partners (Pty) Ltd (previously Momentum Asset Management))		
Balance at beginning of the year	1 832 987	1 594 575
Net additional Investments	82 668	120 220
Interest Income	154 364	118 267
Amortised cost adjustments	1 372	(75)
Balance at the end of the year	2 071 391	1 832 987
PERSONAL MEDICAL SAVINGS ACCOUNT TRUST PORTFOLIO		
(Managed by Taquanta Asset Managers (Pty) Ltd)		
Balance at beginning of the year	1 834 469	1 594 214
Net additional Investments	86 660	127 524
Interest Income	150 152	112 731
Balance at the end of the year	2 071 281	1 834 469
Total Personal Medical Savings Account trust assets	4 142 672	3 667 456

These funds represent members' Personal Medical Savings Account assets managed by the Scheme on behalf of its members. As required by Circular 38 of 2011 and Circular 5 of 2012 issued by the Council for Medical Schemes, these assets have been invested separately from the Scheme's assets. The difference between total Personal Medical Savings Account trust assets and Personal Medical Savings Account trust liabilities is reconciled monthly and arises from timing of cash flows to and from the portfolios. For the year under review the average rate earned on the Personal Medical Savings Account Trust assets was 7.64% (2015: 6.91%).

Operational statistics per benefit plan for the year ended 31 December 2016

2016

	Executive	Classic Comp	Classic Core	Classic Saver	Classic Priority	Essential Comp
Number of members at the end of the accounting period	10 929	153 385	52 156	269 779	96 275	18 377
Number of beneficiaries at the end of the accounting period	24 142	349 237	111 913	590 831	220 180	36 131
Average number of members for the accounting period	11 159	157 002	51 848	267 495	97 459	18 763
Average number of beneficiaries for the accounting period	24 760	358 278	111 469	585 472	222 823	37 058
Average risk contributions per member per month (R')	6 538	5 203	2 986	2 840	3 593	4 504
Average risk contributions per beneficiary per month (R')	2 947	2 280	1 389	1 297	1 572	2 280
Average net claims incurred per member per month (R')	8 648	5 154	2 154	2 114	2 894	3 703
Average net claims incurred per beneficiary per month (R')	3 897	2 258	1 002	966	1 266	1 875
Average administration costs per member per month (R')	298	298	298	298	298	298
Average administration costs per beneficiary per month (R')	134	131	139	136	130	151
Average managed care: Management services per member per month (R')	92	92	92	92	92	92
Average managed care: Management services per beneficiary per month (R')	41	40	43	42	40	46
Average family size at 31 December	2.21	2.28	2.15	2.19	2.29	1.97
Loss ratio (%)	134%	101%	75%	78%	83%	85%
Total non-healthcare expenses as a percentage of risk contributions (%)	6%	8%	13%	14%	11%	9%
Average non-healthcare expenses per member per month (R')	399	401	382	394	401	405
Average non-healthcare expenses per beneficiary per month (R')	180	176	178	180	175	205
Average age of beneficiaries (years)	42	39	38	31	36	44
Pensioner ratio (beneficiaries over 65 years)	19%	14%	13%	6%	10%	24%
Average relevant health care expenses per member per month (R')	8 758	5 264	2 246	2 205	2 986	3 814
Average relevant health care expenses per beneficiary per month (R')	3 947	2 307	1 045	1 008	1 306	1 931
Net surplus/(deficit) per benefit plan (R'000)	(341 248)	(741 888)	282 896	991 747	321 876	79 776

2015

	Executive	Classic Comp	Classic Core	Classic Saver	Classic Priority	Essential Comp
Number of members at the end of the accounting period	11 262	163 889	54 057	258 175	100 080	20 388
Number of beneficiaries at the end of the accounting period	25 149	376 774	115 775	565 252	230 166	40 810
Average number of members for the accounting period	11 468	167 127	53 274	255 914	101 008	20 783
Average number of beneficiaries for the accounting period	25 698	385 422	114 418	559 621	231 898	41 770
Average risk contributions per member per month (R')	6 037	4 800	2 759	2 633	3 308	4 182
Average risk contributions per beneficiary per month (R')	2 694	2 081	1 285	1 204	1 441	2 081
Average net claims incurred per member per month (R')*	7 927	4 660	1 915	1 902	2 617	3 353
Average net claims incurred per beneficiary per month (R')*	3 538	2 021	892	870	1 140	1 668
Average administration costs per member per month (R')	285	285	285	285	285	285
Average administration costs per beneficiary per month (R')	127	124	133	130	124	142
Average managed care: Management services per member per month (R')	87	87	87	87	87	87
Average managed care: Management services per beneficiary per month (R')	39	38	41	40	38	43
Average family size at 31 December	2.23	2.30	2.14	2.19	2.30	2.00
Loss ratio (%)	133%	99%	73%	76%	82%	83%
Total non-healthcare expenses as a percentage of risk contributions (%)	6%	8%	13%	14%	11%	9%
Average non-healthcare expenses per member per month (R')	377	378	362	371	377	378
Average non-healthcare expenses per beneficiary per month (R')	168	164	168	170	164	188
Average age of beneficiaries (years)	42.49	39.74	38.54	32.19	35.94	44.59
Pensioner ratio (beneficiaries over 65 years)	19%	15%	14%	6%	10%	24%
Average relevant health care expenses per member per month (R')	8 043	4 774	2 002	1 989	2 704	3 464
Average relevant health care expenses per beneficiary per month (R')	3 590	2 070	932	910	1 178	1 724
Net surplus/(deficit) per benefit plan (R'000)	(320 737)	(601 499)	285 423	993 912	336 804	97 722

* See note 13 to the Annual Financial Statements for explanatory note on change of disclosure.

** The Smart Plan was introduced in 2016.

Essential Core	Essential Saver	Essential Priority	Coastal Saver	Coastal Core	KeyCare Plus	KeyCare Core	KeyCare Access	Classic Comp Zero MSA	Smart	Total
38 189	107 335	7 510	187 250	87 187	236 417	14 926	5 115	829	11 807	1 297 466
79 461	223 979	15 848	424 238	193 129	412 459	23 505	7 280	1 827	21 031	2 735 191
36 070	102 528	7 595	185 776	86 006	227 986	14 055	4 928	831	9 090	1 278 589
75 442	214 655	16 023	421 822	190 699	398 756	22 064	7 002	1 828	16 659	2 704 810
2 342	2 345	3 260	2 416	2 339	1 538	1 310	965	5 120	2 081	2 843
1 120	1 120	1 545	1 064	1 055	879	834	679	2 328	1 136	1 344
1 526	1 468	2 259	2 015	1 902	1 449	754	388	4 804	1 033	2 386
730	701	1 071	887	858	829	480	273	2 184	564	1 128
298	298	298	298	298	160	86	103	298	300	270
143	142	141	131	135	91	55	73	136	164	128
92	92	92	92	92	92	92	92	92	92	92
44	44	43	40	41	52	58	65	42	50	43
2.08	2.09	2.11	2.27	2.22	1.74	1.57	1.42	2.20	1.78	2.11
69%	66%	72%	87%	85%	99%	65%	55%	96%	55%	87%
16%	16%	12%	16%	16%	14%	11%	15%	8%	18%	13%
375	384	396	392	377	220	140	149	397	372	358
179	183	188	173	170	126	89	105	180	203	169
34	29	35	33	36	28	34	30	38	29	34.17
8%	4%	10%	6%	10%	5%	9%	5%	11%	3%	9%
1 618	1 559	2 351	2 107	1 993	1 529	845	529	4 928	1 135	2 479
774	745	1 114	928	899	874	538	372	2 240	620	1 172
192 694	579 193	53 128	(31 011)	67 366	(314 518)	70 967	22 707	(1 072)	72 837	1 305 450

Essential Core	Essential Saver	Essential Priority	Coastal Saver	Coastal Core	KeyCare Plus	KeyCare Core	KeyCare Access	Classic Comp Zero MSA	Smart**	Total
35 434	97 816	8 344	181 052	87 022	229 510	14 854	5 241	753		1 267 877
74 106	205 605	17 651	412 879	191 498	403 636	23 320	7 531	1 700		2 691 852
33 075	93 255	8 444	179 275	85 046	219 615	14 083	4 913	751		1 248 031
69 820	197 093	17 798	409 467	187 726	387 746	22 132	7 152	1 685		2 659 446
2 192	2 203	2 990	2 224	2 136	1 443	1 219	872	4 805		2 675
1 039	1 042	1 419	974	968	818	776	599	2 141		1 255
1 457	1 355	1 843	1 820	1 679	1 360	541	425	4 406		2 214
690	641	874	797	760	771	344	292	1 963		1 039
285	285	285	285	285	153	82	98	285		259
135	135	135	125	129	87	52	68	127		121
87	87	87	87	87	87	87	87	87		87
41	41	41	38	40	49	55	60	39		41
2.09	2.10	2.12	2.28	2.20	1.76	1.57	1.44	2.26		2.12
70%	65%	65%	86%	83%	99%	52%	64%	95%		86%
16%	16%	12%	17%	17%	14%	11%	16%	8%		13%
356	362	372	368	357	208	131	139	374		338
169	171	177	161	162	118	83	95	167		158
35.93	30.71	35.20	32.98	36.78	28.68	34.17	30.43	38.15		33.86
10%	5%	10%	6%	11%	5%	10%	5%	12%		9%
1 544	1 442	1 930	1 907	1 766	1 436	628	560	4 543		2 304
731	682	916	835	800	813	400	385	2 024		1 081
136 190	504 202	74 927	(84)	65 198	(394 861)	86 251	13 236	(544)		1 276 140

Matters of non-compliance for the year ended 31 December 2016

The CMS issued Circular 11 of 2006 (the Circular) deals with issues to be addressed in the audited financial statements of medical schemes. The Circular requires that all instances of non-compliance be disclosed in the audited financial statements, irrespective of whether the auditor considers them to be material or not.

During the year, the Scheme did not comply with the following Sections and Regulations of the Act.

► STATUTORY SCHEME SOLVENCY

Under the Act, medical schemes are required to hold a minimum of 25% of gross annual contribution income as a reserve or accumulated funds (also known as the solvency ratio). The solvency ratio is a measure of a scheme's ability to absorb unexpected changes in claims experience, demographics (e.g. average age, chronic profile, etc.) and legislative environments, and therefore reflects a scheme's financial strength.

During 2016, the Scheme's solvency level dropped below 25% during January and November. In January, the drop was attributable to the impact of annual contribution increases (schemes are required to hold reserves equal to annualised inflation-adjusted contributions from the first day of the financial year). In November, the drop was due to a negative claims experience in line with historic trends.

At 31 December 2016, the Scheme's accumulated funds expressed as a percentage of gross annual contributions was 26.33% (2015: 25.98%), exceeding the statutory solvency requirement of 25%.

► SUSTAINABILITY OF BENEFIT PLANS

In terms of Section 33 (2) of the Act, each benefit plan is required to be self-supporting in terms of membership and financial performance, and be financially sound.

For the year ended 31 December 2016 the following plans did not comply with Section 33 (2):

Benefit plan	Net healthcare result (R'000)	Net surplus/ (deficit) (R'000)
Executive	(350 528)	(341 248)
Classic Comprehensive	(872 500)	(741 888)
Classic Comprehensive Zero MSA	(2 040)	(1 072)
Coastal Saver	(184 640)	(31 011)
Coastal Core	(32 915)	67 366
KeyCare Plus	(579 629)	(314 518)

The performance of all benefit options is monitored on an ongoing basis with a view to improving financial outcomes, and different strategies to address the deficit in these plans are continually evaluated.

When structuring benefit options, the financial sustainability of all the options is considered. The different financial positions reflect the different disease burdens in each option, among many other factors. The Scheme's strategy on the sustainability of plans balances short- and long-term financial considerations, fairness to both healthy and sick members, and continued affordability of cover for members with different levels of income and healthcare needs. While the Scheme is committed to complying wherever possible with the applicable legislation, it also focuses intensively on the overall stability and financial position of the Scheme as a whole and not only on individual benefit plans.

In addition, DHMS continually provides the Registrar with updates on both the Scheme and individual benefit option performance through the monthly management accounts and quarterly monitoring meetings.

► INVESTMENT IN EMPLOYER GROUPS AND MEDICAL SCHEME ADMINISTRATORS

Section 35 (8) (a) and (c) of the Act states that a medical scheme shall not invest any of its assets in the business of an employer who participates in the Scheme, or any administrator or any arrangement associated with the Scheme. The Scheme has investments in certain employer groups and companies associated with medical scheme administration within its diversified investment portfolio. This situation occurs across the industry. The CMS granted DHMS an exemption from these sections of the Act up to 21 April 2018.

The Scheme has no investments in Discovery Holdings Limited, the holding company of Discovery Health (Pty) Ltd.

► INVESTMENTS IN OTHER ASSETS IN TERRITORIES OUTSIDE SOUTH AFRICA

The Scheme's offshore bond managers utilise derivative instruments to aid with efficient portfolio construction and management, and to reduce the overall risk within our portfolios. The derivatives used are highly liquid and are either exchange traded or governed by International Swaps and Derivatives Association agreements. The derivative instruments are not used for speculation and there is no gearing or leverage applied. Investments in derivatives in territories outside the Republic of South Africa are, however, prohibited in terms of Category 7 (b) of Annexure B to the Regulations of the Act.

The Scheme was granted an exemption to invest in offshore derivatives, subject to certain conditions, up to 31 December 2018.

During August and September, a breach of the Scheme's foreign derivative exemption (Category 7 (b) of Annexure B) occurred when the Investec Target Return Bond Fund (collective investment scheme) derivative exposure was greater than 2.5% due to large foreign exchange fluctuations that occurred because of Brexit. The breach was rectified on 21 September 2016. This was duly reported to the CMS on 26 October 2016. It should be noted that despite the recorded breach at the individual fund level, the fair value of the Scheme's total offshore derivative exposures was only 0.19% of the aggregate fair value of Scheme liabilities and minimum accumulated funds at 31 August 2016.

► CONTRIBUTIONS RECEIVED AFTER DUE DATE

Section 26 (7) of the Act states that all subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment becomes due. There are instances where the Scheme received contributions after the three days; however, there are no contracts in place agreeing to this practice. It is important to note that the Scheme has no control over the timely payment of contributions. The legal obligation resides with the members/employers to pay contributions within the prescribed period.

The Scheme applies robust credit control processes to deal with the collection of outstanding contributions, including the suspension of membership for non-payment.

► BROKER FEES PAID

In terms of Regulation 28 (5) of the Act, broker fees shall be paid monthly on receipt by a medical scheme of the relevant monthly contribution in accordance with the maximum amount payable per Regulation 28 (2), limited to one broker as required by Regulation 28 (8).

In some instances, brokers were compensated prior to receipt of the relevant monthly contribution, the amount paid was more than the prescribed amount and more than one broker per member was paid. In the instances where brokers were paid above the prescribed amount or more than one broker was paid, the value is negligible and represents less than 0.02% of the total broker fees paid for the year. The exceptions relate to transactions that do not occur frequently and the Administrator has developed exception reporting to identify and correct these transactions, and has a well-established claw-back system to rectify commission overpayments.

► CLAIMS PAID IN EXCESS OF 30 DAYS AFTER RECEIPT

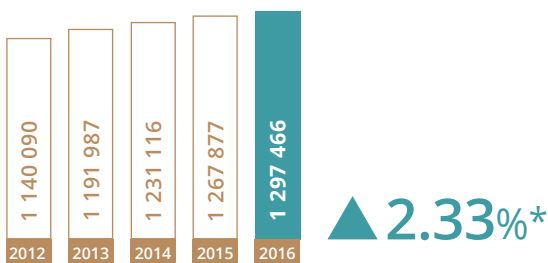
Section 59 (2) of the Act requires a medical scheme to pay a member or a supplier of a service any benefit owing to them within 30 days after the day on which the claim in respect of the benefit is received by the medical scheme.

During the process of transitioning to a new claims administration platform, quality assurance processes were significantly extended to ensure valid, accurate and complete processing of claims on the new claims administration platform. This process resulted in a delay in the processing of claims payments. A total number of 34 claims were identified that were paid later than 30 days after the claims notification date. The value of exceptions should be considered in the context of net claims incurred of R36.6 billion during 2016. Exceptions identified pertained to a specific event i.e. the transition to the new claims administration platform and thus no further action is required. The claims administration platform is set up to ensure payments occur within regulatory requirements.

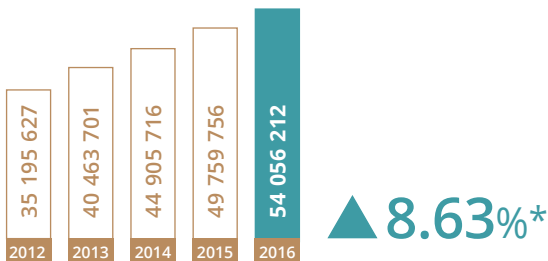
KEY HISTORICAL PERFORMANCE INDICATORS

The Scheme continues to build on its excellent historical performance, evidenced by the increase over the last five years in our principal members, Scheme lives, gross contributions and members' funds.

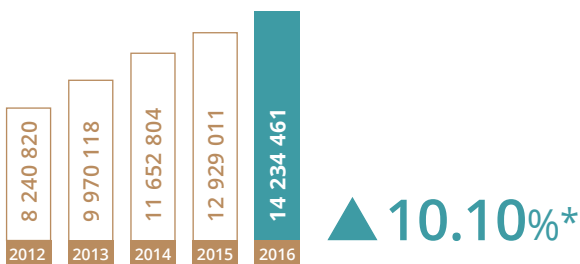
Increase in Scheme principal members



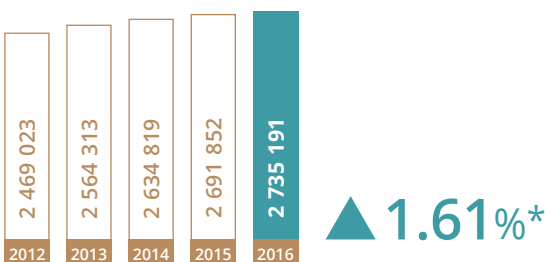
Increase in gross contributions (R'000)



Growth in members' funds (R'000)



Increase in Scheme lives



* Year-on-year change.

Discovery Health Medical Scheme 2017 Annual General Meeting Notice

Members of DHMS are invited to the upcoming DHMS Annual General Meeting (AGM).

Details are as follows:

Date:	Thursday, 22 June 2017
Venue:	The Hilton Conference Room, The Hilton Hotel, 138 Rivonia Road, Sandton. Limited parking will be available at The Hilton Hotel.

Additional parking will be available as follows:

Nedbank (135 Rivonia Road, Sandton), Rand Merchant Bank (1 Merchant Place, Corner Fredman Drive and Rivonia Road, Sandton) and The Maslow Hotel (Corner Grayston Drive and Rivonia Road, Sandton).

Meeting time: 09:00

Registration: 07:00 to 09:00

Identification: Members attending the AGM must bring along together with their membership card any of the following identification documents: A South African ID book or Smart ID card, South African Driver's License or a Passport.

Live streaming: If you are unable to attend the AGM, you can make use of the live streaming facility that will be available on www.discovery.co.za on 22 June 2017 at 09:00.

The agenda for the meeting is as follows:

- Welcome and quorum
- Minutes of the 2016 Annual General Meeting – for approval
- Tabling of the 2016 Integrated Annual Report, including the Scheme's Annual Financial Statements for the financial year ended 31 December 2016
 - 3.1. Presentation by the Principal Officer of Discovery Health Medical Scheme
 - 3.2. Presentation by the CEO of Discovery Health (Pty) Limited, the Administrator of Discovery Health Medical Scheme
- Governance
 - 4.1. Discovery Health Medical Scheme Trustee Remuneration Policy and approval of the 2017 Trustee Remuneration
 - 4.2. Appointment of Auditors
- Motions
- General
 - 7.1. Election of Trustees
 - 7.2. 2017 Trustee Remuneration
 - 7.3. Non-Binding Advisory vote on the Trustee Remuneration Policy
 - 7.4. Motions
- Member Engagement



You can RSVP your attendance to the AGM on www.discovery.co.za.

Member Engagement

The Board of Trustees invites members to engage with the Principal Officer and the Board of Trustees on specific Scheme matters of their choice immediately after the closure of the AGM.

The minutes of the 2016 Annual General Meeting, the summary of the Scheme's Remuneration Policy and the 2017 proposed Trustee Remuneration are available on www.discovery.co.za.

The 2016 Integrated Annual Report, including the full set of audited Annual Financial Statements and the Report by the Board of Trustees, is available on www.discovery.co.za