HIGHLIGHTS FROM THE 2017 ANNUAL FINANCIAL STATEMENTS AND NOTICE OF AGM

REVIEW BY THE CHAIRMAN OF THE BOARD AND PRINCIPAL OFFICER

The Society tackling sustainability head-on

The Society, the oldest medical scheme in South Africa, has faced many challenges in its 129 years of existence and has always strived to offer good value for money to its members and remain sustainable as a self-administered scheme.

The main contributing reasons for the Society's continued sustainability is the high level of accumulated funds (reserves), the investment returns earned on these reserves and the employer grant we receive from De Beers (see details below). In addition, ongoing initiatives that have been implemented by the Society over the years to manage the utilisation of benefits more efficiently in the best interest of all members, and members' positive response to these, have also had an impact.

However, we are operating in uncertain times under a rapidly evolving regulatory environment with increasing cost pressures, increasing claims and evolving technologies. Ongoing corporate activity within De Beers resulting in further reductions in membership also has an impact. In response to this, the Board of Trustees (the Board) has commenced a project in consultation with the Society's Actuarial Consultants to:

- conduct a review of the Society's current operating model;
- investigate a number of potential future scenarios;
- consider opportunities to address the challenges facing the Society and its longer-term sustainability;
- assess the compatibility and cost effectiveness of the Society's contributions and benefits in relation to the wider medical scheme industry; and
- assess the impact of changes in the current regulatory framework and the healthcare industry in general.

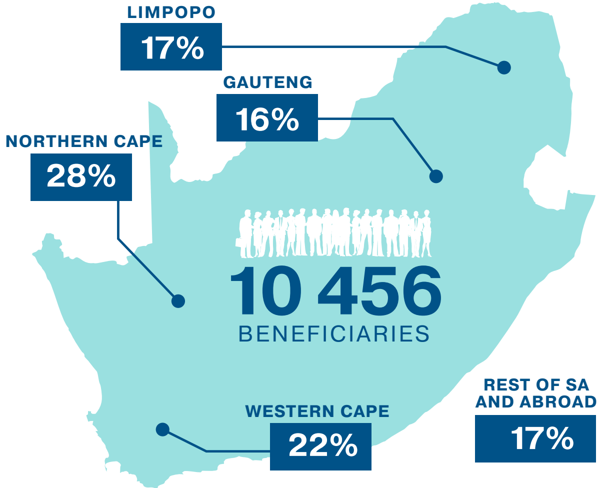
The Society may well find itself in a position at some point in the future where it will be compelled to implement significant changes in response to the ever-changing environment in which it operates. Any developments in this regard will be communicated to members, when appropriate.

2017 AT A GLANCE

R569.7m	R57.8m	R296.3m	R310.1m
Total investments	**Net investment income**	**Total contributions**	**Total benefits**
(2016: R535.9 million)	(2016: R47.8 million)	(2016: R289.9 million)	(2016: R295.1 million)

MEMBERSHIP

During 2017 the Society provided benefits to an average of 10 456 (2016: 11 146) beneficiaries located primarily in the Northern Cape (28%), Western Cape (22%), Gauteng (16%) and Limpopo (17%). The remaining beneficiaries are spread across the remainder of South Africa and abroad (17%).

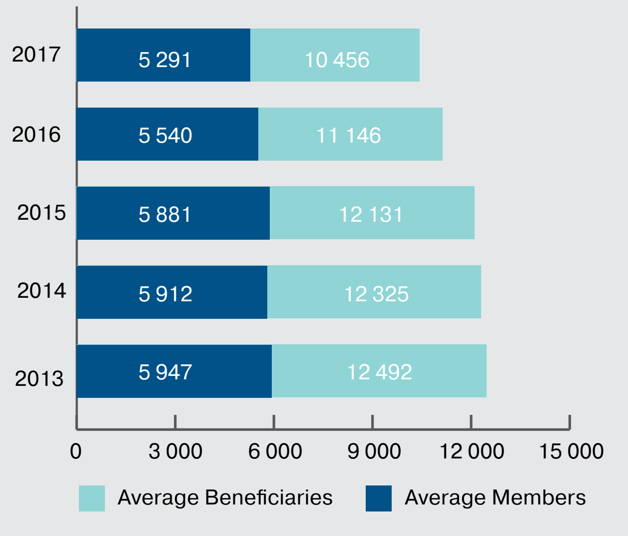


The Society has experienced a further decrease in membership and in its dependant ratio during the year under review as a result of the on-going organisational restructuring within De Beers and member choice in relation to the registration of dependants.

The Society had 5 206 (2016: 5 387) principal members as at 31 December 2017, with a monthly average of 5 291 (2016: 5 540) for the year. The dependant ratio as at 31 December 2017 was 1: 0.97 (2016: 1: 0.99).

Since the membership of the Society is directly affected by the corporate activity within De Beers, the Board continues to monitor developments in this regard and interacts with the participating employers to evaluate the potential impact of such activity on the Society's membership. The Board is currently not aware of any corporate activity that would potentially have a significant impact on the Society in the short term, other than the announcement by De Beers Consolidated Mines (DBCM) that it is seeking expressions of interest from potential buyers for its Voorspoed Mine, where approximately 100 members are employed, some of whom may ultimately be re-deployed elsewhere.

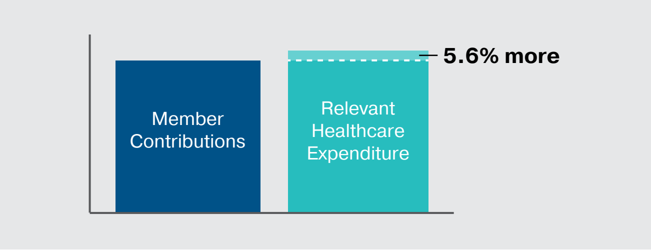
AVERAGE MEMBERSHIP



FINANCIAL RESULTS FOR THE YEAR

Relevant healthcare expenditure expressed as a percentage of contributions for the year increased to 105.6% (2016: 102.6%) and the Society reflected a total comprehensive income for the year of R34.8 million (2016: R31,2 million) after incorporating investment and other income. The return on investments for the year was 11.0% (2016: 9.4%)

RELEVANT HEALTHCARE EXPENDITURE

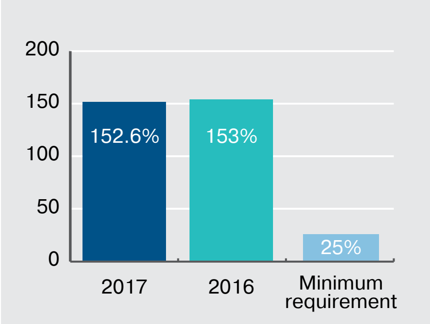


ACCUMULATED FUNDS AND SOLVENCY RATIO

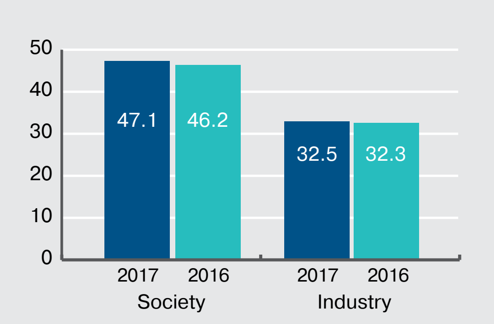
The Society's accumulated funds have grown to R555.6 million (2016: R520.7 million). Its solvency ratio as at 31 December 2017 decreased to 152.6% (2016: 153.0%).

The Board is aware of the fact that the Society's solvency ratio is substantially higher than the minimum of 25% required by the Act. It is also in excess of the Society's risk-based capital requirement, as determined by the Actuary based on the Society's specific risk profile. This is reassuring, given the current regulatory framework, a rapidly evolving South African healthcare environment, the on-going corporate activity within De Beers, the increasing average age of beneficiaries of 47.1 years (2016: 46.2) and the pensioner ratio of 27.4% (2016: 25.6%), all of which are significantly higher than the industry average of 32.5 years (2016: 32.3) and 7.9% (2016: 7.7%), respectively.

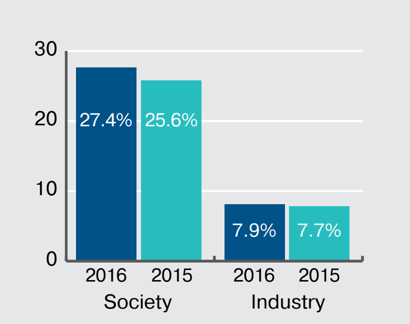
SOLVENCY RATIO



AVERAGE AGE OF BENEFICIARIES



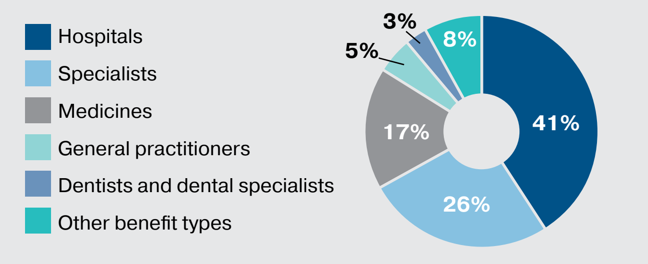
PENSIONER RATIO



RELEVANT HEALTHCARE EXPENDITURE

Of the total net claims incurred in 2017, hospitals comprised 41% (2016: 40%), specialists 26% (2016: 26%), medicines 17% (2016: 17%), general practitioners 5% (2016: 5%), dentists and dental specialists 3% (2016: 4%) and other benefit types 8% (2016: 8%).

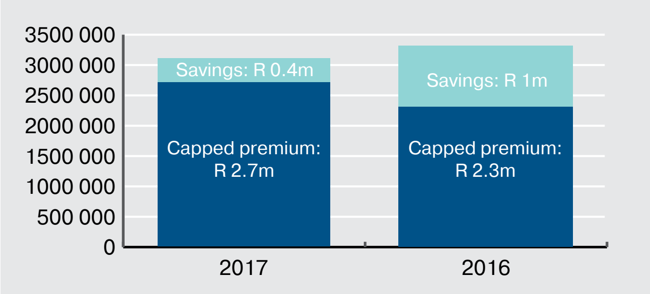
NET CLAIMS ANALYSIS



EMERGENCY MEDICAL TRANSPORT AND EVACUATION SERVICES

The Society maintains a fixed-fee capitation agreement with ER24 providing for emergency medical transport and evacuation services. The Society paid a premium of R2.7 million (2016: R2.3 million) to ER 24 for the year. The total cost for emergency medical transport and evacuation services recovered in terms of this agreement amounted to R 2.7 million (2016: R2.6 million) for the year. Had this agreement not been in place, the total cost for emergency medical transport and evacuation services, based on the ER24 private client rates, would have been R3.1 million (2016: R3.3 million).

SAVINGS ON ER24



EMPLOYER GRANT IN RESPECT OF PENSIONERS

The employer grant relates to a subsidy which is payable by DBCM in terms of these agreements reached with DBCM following the termination of the membership of the Finsch Mine and Kimberley Mines employees (and the retention in the Society of the continuation members associated with these mines) after the sale of the mines in September 2011 and January 2016, respectively. In terms of the agreement DBCM agreed to subsidise any annual cross-subsidy deficit that may arise, to offset the associated negative impact on the Society.

The subsidy is calculated annually by the Actuary in terms of an agreed methodology. The total subsidy payable by DBCM for the year in terms of these agreements amounted to R13.1 million (2016: R9.5 million).

ACTUARIAL SERVICES

The Actuary assists the Society in identifying and assessing risks and establishing claiming patterns by conducting regular actuarial modelling. The Actuary also calculates the outstanding claims provision, the Society's post-employment healthcare benefits obligation and the employer grant, and generally advises the Board in relation to the operation of the Society.

In addition, the Actuary is consulted to determine and model the benefits and contribution levels for each benefit year. Alexander Forbes Health replaced Insight Actuaries and Consultants as Actuarial Consultants to the Society on 8 March 2018.

PROTECTION OF PERSONAL INFORMATION ACT (POPIA)

Certain sections of POPIA were assented to on 26 November 2013. Notwithstanding the fact that the final commencement date of the Act has not yet been published, the Society has implemented a structured process to ensure compliance with the requirements of POPIA and the safeguarding of all personal information.

GOVERNANCE AND COMPLIANCE

The Society's certificate of compliance with administration standards applicable to self-administered schemes was renewed by the Council for Medical Schemes (the Council) and is valid until 9 December 2019, but remains subject to an on-site evaluation that will be conducted by Council during the second quarter of 2018.

In addition, with the announcement of the implementation of King IV and aligned to the Society's commitment to good corporate governance, the Society has commenced with a process to assess its compliance with the principles of the King Report on Corporate Governance for South Africa insofar as it applies to medical schemes. Upon finalisation, a report in this regard will be compiled for publication on the Society's website.

MANAGEMENT AND STAFF

The Board is indebted to the management and staff of the Society for their commitment to the efficient and cost-effective running of the business and affairs of the Society during these challenging times. Their teamwork, loyalty and the personal touch that they display in dealings with members and the affairs of the Society in general play a key role in ensuring the Society's on-going success.

IN CLOSING

Undoubtedly 2018 will be another year in which the Society will have to face challenges from a number of sources, but we believe that we are well positioned to tackle these head-on.

We wish to thank the Trustees, Board Committee members, staff and service providers of the Society for their support, guidance, co-operation and dedication during the year under review and, in advance, for the year that lies ahead.

Colin Blanckenberg
Chairman

Leon Coetzee
Principal Officer

28 March 2018

Financials

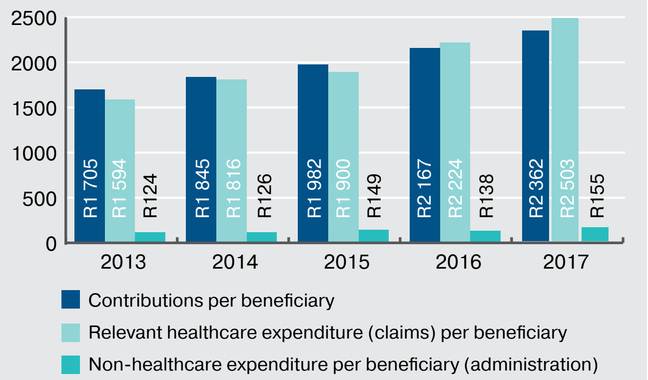
FINANCIAL POSITION AS AT 31 DECEMBER 2017

	2017 R'000	2016 R'000
ASSETS		
Non-current assets	**561 159**	504 570
Property, plant and equipment	**82**	158
Intangible assets	**3**	9
Financial assets at fair value through profit or loss	**561 074**	504 403
Current assets	**39 806**	60 658
Financial assets at fair value through profit or loss	**8 611**	31 504
Trade and other receivables	**17 121**	13 214
Cash and cash equivalents	**14 074**	15 940
Total assets	**600 965**	565 228
FUNDS AND LIABILITIES		
Members' funds		
Accumulated funds	**555 565**	520 743
Non-current liabilities		
Retirement benefits obligation	**17 457**	16 415
Current liabilities	**27 943**	28 070
Trade and other payables	**10 962**	11 317
Outstanding claims provision	**16 981**	16 753
Total funds and liabilities	**600 965**	565 228

SOLVENCY RATIO

	2017 R'000	2016 R'000
Accumulated funds per Statement of Financial Position	**555 565**	520 743
Less: Unrealised gains	**(103 434)**	(77 216)
Accumulated funds per Regulation 29	**452 131**	443 527
Net contributions	**296 305**	289 855
Solvency ratio	**152.6%**	153.0%
Accumulated funds per member at 31 December	**107**	97

INCOME VS. EXPENDITURE RATIO
PER BENEFICIARY PER MONTH



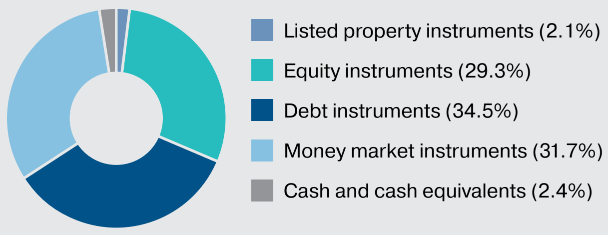
FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 R'000	2016 R'000
Contribution income	**296 305**	289 855
Relevant healthcare expenditure	**(312 854)**	(297 492)
Net claims incurred	**(310 094)**	(295 060)
Accredited managed healthcare services	**(2 736)**	(2 719)
Net (expenses)/income on risk transfer arrangement	**(24)**	287
Risk transfer arrangement premiums	**(2 696)**	(2 285)
Recoveries from risk transfer arrangement	**2 672**	2 572
Gross healthcare results	**(16 549)**	(7 637)
Administration expenditure: Benefit management services	**(379)**	(572)
Administration expenditure	**(18 116)**	(16 874)
Post-employment healthcare benefits	**(926)**	(993)
Net impairment write-offs on healthcare receivables	**(15)**	(40)
Net healthcare result	**(35 985)**	(26 116)
Other income	**74 599**	60 722
Investment income	**61 424**	51 144
Sundry income	**13 175**	9 578
Other expenditure	**(3 676)**	(3 409)
Asset management and monitoring costs	**(3 659)**	(3 388)
Foreign currency translation differences	**(17)**	(21)
Net surplus for the year	**34 938**	31 197
Other comprehensive expenditure	**(116)**	-
Post-employment healthcare benefits	**(116)**	-
Total comprehensive income for the year	**34 822**	31 197

INVESTMENT ANALYSIS

	2017 R'000	2016 R'000
Linked insurance policies and collective investments schemes	**409 783**	350 609
Prescient Collective Investment Schemes	**144 380**	134 961
Nedgroup Structured Life Taquanta Enhanced Income Fund	**45 018**	39 932
Alan Gray Life Domestic Balance Portfolio	**220 385**	175 716
Segregated portfolios *(Managed by Taquanta and Prescient on behalf of the Society):*	**159 902**	185 298
Debt instruments	**60 766**	51 176
Equity instruments	**-**	24 728
Listed property instruments	**3 929**	1 048
Money market instruments	**95 207**	108 346
Cash and cash equivalents	**14 074**	15 940
Cash at bank and on hand	**14 074**	15 940
Total investments	**583 759**	551 847

ECONOMIC EXPOSURE



WOULD YOU LIKE TO KNOW MORE?

These highlights from the annual financial statements are presented in considerably less detail than the audited annual financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRS), as defined by IAS 1 and the interpretations issued by the IFRS Interpretations Committee, with guidance from the Medical Schemes Accounting Guide issued by the South African Institute of Chartered Accountants (SAICA) and in the manner required by the Medical Schemes Act. They contain additional disclosures, such as insurance risk and financial risk management.

For a more comprehensive understanding of the Society's financial position and the result of operations, the highlights from the annual financial statements should be read in conjunction with the audited annual financial statements.

If you would like to obtain a full set of the financials, please do one of the following:

- Contact the Society's Communications Department on 053 807 3363;
- Collect the financials from the Society's offices at Kimberley House, 84 Du Toitspan Road, Kimberley;
- Write to the Principal Officer at P O Box 1922, Kimberley, 8300, and request to have a copy mailed to you; or
- Download the full set of the financial statements from the Society's website, at www.dbbs.co.za.

Notice of AGM

129th Annual General Meeting of the members of the De Beers Benefit Society

De Beers Consolidated Mines Boardroom, 36 Stockdale Street, Kimberley

Wednesday, 16 May 2018

12h00

AGENDA

The purpose of this meeting will be to:

- Approve the minutes of the 128th Annual General Meeting held on 17 May 2017;
- Receive and adopt the annual financial statements of the Society, the report of the Board of Trustees and the report of the auditors for the year ended 31 December 2017;
- Consider the re-appointment of auditors for the year ending 31 December 2018, as provided for in terms of Rule 25.1;
- Approve the Trustee Remuneration Policy;
- Approve that the remuneration payable per meeting attended by Trustees and Board Committee members who are not employees of the Employer or Associated Employers, be increased from R4 136 to R4 405 effective from 1 January 2018, as provided for in Rule 18.24; and
- Transact such business as may be transacted at the Annual General Meeting, subject to the Rules of the Society.

PROXY

Should any principal member wish to be represented at the Annual General Meeting by proxy, such member should contact the Society for an official proxy form. Completed proxy forms should reach the Society's offices by the close of business on 15 May 2018.

NOTICES OF MOTION

Please take note that, in terms of Rule 26.1.5, notices of motion to be placed before the Annual General Meeting must reach the Principal Officer no later than seven business days prior to the date of the meeting.

By order of the Board of Trustees

L COETZEE
PRINCIPAL OFFICER
28 March 2018

PRIVACY POLICY

Members are advised that the Board has recently approved a Privacy Policy. Members are requested to familiarise themselves with this Policy and to take note of their obligations in terms of the published Policy.

The Policy has been published on the Society's website – www.dbbs.co.za. A copy can also be obtained directly from the Society by calling 053 807 3111 (Option 5), or requested by email sent to benefitpost@dbbs.co.za.

The highlights from the annual financial statements for 2017 were derived from the complete set of audited annual financial statements and were compiled in terms of the Rules of the Society and in accordance with Circular 6 of 2013 issued by the Council.

The purpose of this document is to give the reader a broad overview of the financial position and results of the Society, without providing the level of detail that may be found in the annual financial statements.

VAT INCREASE AS FROM 1 APRIL 2018

The increase in value-added tax (VAT) on 1 April 2018 will affect the prices of medical products and services, which means that members will have less buying power when it comes to benefits with benefit limits, such as acute medicines. For benefits where there are no benefit limits, such as hospital benefits and Prescribed Minimum Benefits (PMBs), there will be no impact on members as a result of the change in the VAT rate. The Society will, however, have to carry the increased costs in this regard.

Medical schemes will need to take account of the overall impact of the increase in VAT in determining contribution increases for 2019.

Non-compliance

The following instances of non-compliance with the Act were identified during the year:

Section 33(2) – Society incurred a net healthcare deficit (loss)

During the year the Society incurred a net healthcare deficit of R36.0 million (2016: R26.1 million). This result is as expected and is aligned to the Society's reserve management strategy of ensuring the financial stability and viability of the Society over the foreseeable future. The strategy also takes account of the need for the Society to remain competitive in relation to benefits provided, contribution levels and administration costs.

The Society is financially sound in terms of Section 35 of the Act, as confirmed by the current level of accumulated funds, the total comprehensive income for the year after incorporating investment and other income and the Society's solvency ratio of 152.6% (2016: 153.0%). The financial soundness and sustainability of the Society is carefully considered and managed by the Board on an on-going basis, in consultation with the Actuary.

It is not the strategy of the Society to make a profit and its investment income and employer grant enables it to target a break even position and to ameliorate any net healthcare deficit. The Board monitors the actual results to ensure that the net healthcare deficit is in line with the budget and any material variances are analysed and corrective action taken, where necessary.

Section 35(8) - Investments in participating employers, other medical schemes, administrators or associated companies

The Society through its holdings in the Allan Gray Life Balanced Portfolio (linked insurance policy) and Prescient Positive Return Medical Aid Portfolio (collective investment schemes) holds indirect investments in a number of companies associated with other medical schemes, administrators and participating employers. The investment managers have full discretion over the investment decisions relating to these pooled investments.

The Society applied for an exemption from this section of the Act on 3 March 2017. Exemption was granted until 14 March 2018 by the Council and this exemption has recently been renewed until 14 March 2019.

Section 26(7) - Contribution income not received within three days of becoming due

There were an insignificant number of instances where the Society did not receive contributions from members within three days of these becoming due. This was mainly as a result of members having insufficient funds in their bank accounts at the time of collection, members exiting without informing the Society, and reconciling discrepancies between participating employers and the Society. The risk of default is, however, small because of the restricted nature of the Society and participating employer base.

Contributions not received within three days are actively pursued and the benefit suspension policies are applied rigorously.

Section 59(2) - Late payment of claims

The Society endeavours to pay all claims within 30 days of receipt, but the processing of some claims is occasionally delayed owing to unforeseen circumstances. Delays can, for example, occur when providers fail to supply the Society with their banking details or when claims are referred for clinical auditing or other investigations.

Claims that are not paid within 30 days are actively monitored to ensure their effective on-going management.

Category 7 of Annexure B to Regulation 30 – Limitation on assets exceeded

This contravention is as a result of the reclassification by the Council of credit-linked notes from debt instruments (maximum limit of 10% per institution) to other assets (maximum limit of 2.5%) based on the classification of the Johannesburg Stock Exchange (JSE) thereof, which implies that these instruments have exposure to embedded derivatives.

The Society through its holdings in the Prescient Positive Return Medical Aid Portfolio (collective investment schemes) and the Nedgroup Structured Life Taquanta Enhanced Income Fund (linked insurance policy) holds indirect investments in these credit-linked notes. The investment managers have full discretion over the investment decisions relating to these pooled investments.

The Society has provided the Council with confirmation from the investment managers that these instruments do not have exposure to embedded derivatives. These instruments will therefore be classified either as Category 2(a): Bonds – Inside the Republic or Category 2(b): Bonds – Territories outside the Republic for Annexure B to Regulation 30 of the Act purposes, as per past practice.

Regulation 15A - Non-accredited managed healthcare arrangements

The Society is utilising the services of Preferred Provider Negotiators (PPN), a non-accredited managed healthcare organisation, to provide and manage the Society's optical benefits. In addition, the Society has a fixed-fee capitation agreement with ER24 for providing emergency medical transport and evacuation services.

The Council provided PPN with a letter on 10 January 2012, confirming that it is not a requirement for PPN to be accredited by the Council. ER24 was provided with a similar letter.

In addition, based on the guidelines contained in Circular 13 of 2014: Managed care accreditation and in Circular 56 of 2015: Accounting for managed care services, issued by the Council on 12 March 2014 and 9 September 2015, respectively, it would also appear that it is not a requirement for PPN and ER24 to be accredited by the Council.