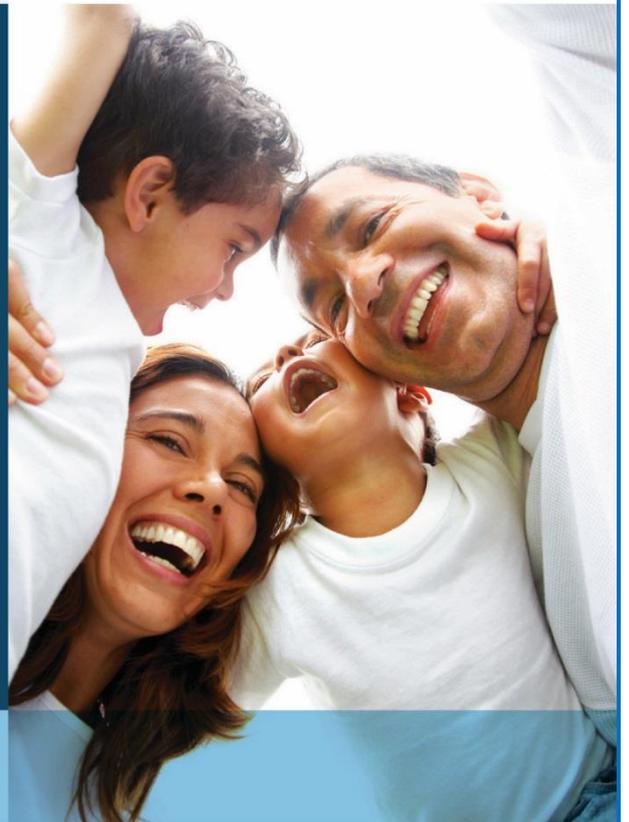


King IV Application Report



What is the purpose of this report?

This report explains how the De Beers Benefit Society (the Society), as a registered medical scheme and as an institutional investor, has applied and is applying the 17 Principles set out in the King IV Code on Corporate Governance (the Code). The Code is contained in the King IV Report on Corporate Governance for South Africa (King IV or the King IV Report).

This document aims to enable Society members (and other stakeholders) to make an informed decision as to whether or not the Society is achieving the corporate governance outcomes required by King IV.

What is “King IV”?

King IV contains a set of principles and leading practices that can be applied by organisations, including medical schemes. The first version, King I, was issued in 1994, with King IV issued in 2016. King IV reinforces the idea that “good corporate governance” is a holistic and interrelated set of arrangements that must be understood and implemented in an integrated manner, rather than just being a compliance tick list. There are four corporate governance outcomes required by King IV, namely, ethical culture, good performance, effective control and legitimacy. It requires that the recommended practices be interpreted and applied in a way that would be appropriate to the organisation and the sector in which it operates, in the interest and to the benefit of the organisation.

What is the Society’s approach to corporate governance?

The Society is committed to the highest level of corporate governance and the Board of Trustees (the Board) maintains a firm focus on upholding the highest standards of corporate governance and is fully committed to the principles and practices that are contained in the Code as set out in Parts 5 and 6 of King IV Report. Good corporate governance requires continuous review of processes, systems and documents for relevance, effectiveness and compliance. As such, the Board has for many years adopted a proactive approach to corporate governance.

The Society has always been required to follow other corporate governance standards and codes. As a result, the Society has already adopted a number of documents which set out the Society’s approach to corporate governance, such as a Board Charter, a Trustee and Principal Officer Code of Conduct, a Statement of Corporate Governance and a Conflict of Interest Policy, copies of which are all available on the Society’s website – www.dbbs.co.za. These should be read in conjunction with this report in order to make an informed assessment of the quality of the Society’s governance practices.

How did we check the Society’s application of the Code?

After King IV was published in 2016, the Society undertook a comprehensive review and analysis of its existing governance practices against each of the King IV principles and associated practices. In this way, it was determined whether the Society’s application of the Code was sufficient or, if not, to identify possible improvement opportunities.

The review focused on:

- ✦ the Society’s approach to corporate governance, its strategy, philosophy and practices;
- ✦ the Terms of Reference of the various Board Committees; and
- ✦ the Society’s policies and other governance documents on matters relevant to corporate governance.

Based on the analysis, we compiled a list of recommended actions. These actions have already been, or are being, actioned by the Board of Trustees and Society Management so that we can align more closely with the applicable and appropriate King IV recommended principles, practices, philosophies and governance outcomes.

Notwithstanding the above, the Board believes that the Society has, over the years, applied to a large degree most, if not all, of the relevant King IV principles and associated practices in one form or another. In this regard stakeholders are referred to the additional documents mentioned above for further reading, in particular the Annual Financial Statements (AFS).

What does this report cover?

This report explains how the Society has applied or not applied the 17 Principles set out in King IV. These Principles are listed below for context. In the next section, the specific practices that demonstrate our application of each Principle are explained, with a link to more information where applicable, and what action is still required in terms of applying the specific principle. Where it is impossible to implement a practice, or where the Trustees consider such implementation inappropriate, an explanation has been equally provided. In some cases, a Principle could only be applied to a certain extent, given the nature of the Society as opposed to, say, a company.

This report should be read in conjunction with the Society's AFS and in particular the Report of the Board of Trustees, the Statement of Corporate Governance by the Board of Trustees and the Statement of Responsibility by the Board of Trustees, available on the Society's website – www.dbbs.co.za.

What are the 17 Principles and how does the Society apply each?

LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP

✦ Leadership

Principle 1 - The Board should lead ethically and effectively.

✦ Organisational ethics

Principle 2 - The Board should govern the ethics of the Society in a way that supports the establishment of an ethical culture.

✦ Responsible corporate citizenship

Principle 3 - The Board should ensure that the Society is (and is seen to be) a responsible corporate citizen.

STRATEGY, PERFORMANCE AND REPORTING

✦ Strategy and performance

Principle 4 - The Board should appreciate that the Society's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

✦ Reporting

Principle 5 - The Board should ensure that reports issued by the Society enable stakeholders to make informed assessments of the Society's performance, and its short, medium and long-term prospects.

GOVERNING STRUCTURE AND DELEGATION

✦ Primary role and responsibilities of the Board

Principle 6 - The Board should serve as the focal point and custodian of corporate governance in the Society.

✦ Composition of the Board

Principle 7 - The Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

✦ Committees of the Board

Principle 8 - The Board should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with the balance of power and the effective discharge of its duties.

✦ Evaluations of the performance of the Board

Principle 9 - The Board should ensure that the evaluation of its own performance and that of its committees, its Chairperson and its individual members, support continued improvement in its performance and effectiveness.

✦ **Appointment and delegation to management**

Principle 10 - The Board should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.

GOVERNANCE FUNCTIONAL AREAS

✦ **Risk governance**

Principle 11 - The Board should govern risk in a way that supports the Society in setting and achieving its strategic objectives.

✦ **Technology and information governance**

Principle 12 - The Board should govern technology and information in a way that supports the Society setting and achieving its strategic objectives.

✦ **Compliance governance**

Principle 13 - The Board should govern compliance with applicable laws and adopt, non-binding rules, codes and standards in a way that supports the Society in being ethical and a good corporate citizen.

✦ **Remuneration governance**

Principle 14 - The Board should ensure that the Society remunerates fairly, responsibly and transparently to promote the achievement of its strategic objectives and positive outcomes in the short, medium and long term.

✦ **Assurance**

Principle 15 - The Board should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the Society's external reports.

STAKEHOLDER RELATIONSHIPS

✦ **Stakeholders**

Principle 16 - In the execution of its governance role and responsibilities, the Board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the Society over time.

✦ **Responsibilities of institutional investors**

Principle 17 - The Board should ensure that responsible investment is practised by the Society to promote the good governance and the creation of value by the companies in which it invests.

The outcomes of the Society's review and ongoing analysis of its application of the King IV recommended principles, practices, philosophies and governance outcomes, are covered in greater detail in the next section.

Leadership

PRINCIPLE 1

The Board should lead ethically and effectively.

Application and explanation

Members of the Board are appointed and elected in terms of the Society Rules. The election of member-elected Trustees is overseen by an independent Election Officer and the employer-appointed Trustees are approved by the Employer. The Chairperson is also elected from amongst all the Trustees in terms of the Society Rules.

The Board is committed to the highest levels of ethical behaviour, as well as sound corporate governance principles and practices. In discharging its fiduciary duties, as stipulated in the Society Rules, the Board has developed and adopted the following governance documents, which provide a clear and concise overview of its responsibilities and areas of accountability, collectively and individually:

- ✦ Board Charter;
- ✦ Trustee and Principal Officer Code of Conduct;
- ✦ Conflict of Interest Policy;
- ✦ Statement of Corporate Governance;
- ✦ Series of Society Policy Documents; and
- ✦ Terms of Reference for all Board Committees.

The Board is satisfied that the values of integrity, competency, accountability, responsibility, fairness and transparency are embedded in the Society's daily operations, which exemplify ethical and effective leadership, as well as being a responsible corporate citizen.

Board and Board Committee members are regularly reminded of their fiduciary duties and comprehensive agenda packs are distributed in advance of each meeting so that Board and Board Committee members can prepare adequately.

Annual Board and Board Committee self-assessment performance evaluations are performed in order to ascertain what, if any, training needs are required and to help improve individual performance and competence.

All new Board and Board Committee members undergo an induction process and on-going formal training is provided as appropriate. Board and Board Committee members are encouraged to undertake continuous development, training and education throughout their term of office.

Updated personal declarations of interest are required as a minimum on an annual basis by both Board and Board Committee members, and whenever there is a change to such interests.



Copies of the relevant documents referred to above are available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is satisfied that the practices, philosophies and governance outcomes contemplated in Principle 1 of the Code are being achieved and appropriately disclosed in the relevant external reporting done by the Society.



No further action required.

Organisational ethics

PRINCIPLE 2

The Board should govern the ethics of the Society in a way that supports the establishment of an ethical culture.

Application and explanation

In addition to the Board setting an example through its own character and behaviour, the Board is responsible for setting, reporting on and ensuring effective governance of the Society's ethics. Incorporated in each employee of the Society's contract of employment is a code of conduct which each employee is required to sign and comply with. All Trustees sign acceptance of the Trustee and Principal Officer Code of Conduct, established and regularly reviewed by the Board.

In discharging its fiduciary duties, the Board ensures that all stakeholders, including service providers, are given guidance, where necessary, on ethical conduct. The Society has adopted a policy whereby no gifts may be accepted from existing or prospective stakeholders or service providers. Declaration of conflict of interest forms are completed by all employees, Board and Board Committee members on an annual basis or when a new conflict has arisen since the last declaration. The Society's ethical organisational culture is reflected in its purpose, vision, values and operating principles statement and governance documentation referred to in this report.



The Society's purpose, vision, values and operating principles statement is available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is satisfied that its documented corporate governance strategy, philosophy and practices, including the policies and other governance documents on matters relevant to corporate governance, support the establishment of an ethical culture. Disclosure in this regard in the AFS and other reports is deemed appropriate.



No further action required.

Responsible corporate citizenship

PRINCIPLE 3

The Board should ensure that the Society is and is seen to be a responsible corporate citizen.

Application and explanation

As a responsible corporate citizen, the Society follows prudent investment practices by complying with Regulations 29 and 30 to the Medical Schemes Act (the Act).

The Board gives substance to its duty of being a responsible corporate citizen by ensuring that its investment analyses and practices take account of sustainability. The Society follows due diligence processes, with the assistance of its investment consultants, when appointing asset managers. The asset managers' performances are reviewed at least quarterly by the Investment Board Committee in consultation with the investment consultants. Asset managers are also required to report to the Investment Board Committee at due diligence meetings and to Trustees at investment days on how they have applied their investment decisions, and how they have discharged their ownership responsibilities of engagement and proxy voting on behalf of the Society.

The Society believes that a well-governed scheme should follow and apply responsible investing principles, hold investee companies accountable for good corporate governance and put in place checks and balances that are essential for a sound and effective corporate governance framework.

The Society adheres to the Treating Customers Fairly (TCF) fairness outcomes which have been embedded in its culture, operations and decision-making processes. Insofar as the workplace is concerned the Society gives due consideration to employment equity, and the fair remuneration, safety, health, dignity and development of its employees.



The Society's Investment Policy Statement (IPS) is available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is satisfied that its documented corporate governance strategy, philosophy and practices relating to Principle 3 is sufficient to ensure the Society is and is seen to be a responsible corporate citizen. Disclosure in this regard in the AFS and other reports is deemed appropriate.



No further action required.

STRATEGY, PERFORMANCE AND REPORTING

Strategy and performance

PRINCIPLE 4

The Board should appreciate that the Society's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

Application and explanation

The purpose of the Society is narrowly defined as managing and providing medical aid benefits to its members, their beneficiaries and dependants as provided for in the Society Rules.

The Board is satisfied that the application of the IPS and the prudent execution of the investment strategies has led to a financially sound and sustainable medical aid.

Furthermore, the Board is responsible for directing, controlling and overseeing the Society's operations in accordance with the provisions of the Act and Society Rules. In so doing the Board itself or through its various Board Committees and through regular interaction with external service providers, monitors and ensures that the Society's strategies are implemented and executed, performance targets are being met and opportunities to improve the Society's operations and governance framework are identified. The Board and the various Board Committees, where relevant, regularly review the Society's strategies, in particular its long-term sustainability and the achievement of members' reasonable benefit expectations. To this end, advice and guidance are obtained from external service providers, such as the Society Actuary and investment consultants.

The Society proactively monitors and manages risk in accordance with a formal risk management policy and process.

In terms of International Financial Reporting Standards (IFRS), with guidance from the Medical Schemes Accounting Guide issued by the South African Institute of Chartered Accountants (SAICA) the AFS are prepared on the going concern basis, which the external auditors are required to report on in their independent auditor's report. The Society Actuary annually prepares a three-year financial projection to ensure that it remains sustainable in terms of the approved strategic plan.



The AFS, which are prepared on the going concern basis, is available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is satisfied that the elements of Principle 4 are regarded as inseparable elements of the value creation process by the Society, as evidenced by the various governance documents, the establishment and functions of the various Board Committees, the regular interactions with external service providers and oversight by the Council for Medical Schemes (CMS). Disclosure in this regard in the AFS and other reports is deemed appropriate.



No further action required.

Reporting

PRINCIPLE 5

The Board should ensure that reports issued by the Society enable stakeholders to make informed assessments of the Society's performance, and its short, medium and long-term prospects.

Application and explanation

Even though the Society does not produce a stand-alone integrated report, the Board is satisfied that the other reports produced and published by the Society for the benefit of members and other stakeholders, such as the AFS, Annual Report, Annual Member Guide and Newsletters (including the Benefit Beat), provide such audiences with the necessary information required to make informed assessments of the Society's performance and prospects. These reports comply with the provisions of the Act and the circulars issued by the CMS.

In addition to an informative and well-maintained website, comprehensive member communication and reporting is undertaken, in accordance with the Society's Communication Policy and Strategy, which is overseen by the Communications and Education Board Committee. All reports published by the Society are extensively reviewed by the Board, the relevant Board Committee (such as the Audit and Risk Board Committee and Investment Board Committee) and external service providers (such as the Society Actuary, legal advisors, external and internal auditors and the investment consultants), as deemed necessary.

The Board, through the Audit and Risk Board Committee, ensures that the necessary internal controls in respect of the Society's financial systems and reporting are in place to ensure the accuracy and integrity of the information contained in the reports published by the Society.

The Board has adopted a stakeholder-inclusive approach in terms of its reporting, which considers the reasonable needs, interests and expectations of all stakeholders.



Copies of the relevant documents referred to above are available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is satisfied that the Society's reporting to stakeholders, members and the CMS, which presents information on the Society's resources, relationships, activities, outputs and outcomes in an integrated manner, is sufficient and meaningful enough to achieve the objective contemplated in Principle 5. The reports mentioned above are published on the Society's website or through other media, as appropriate, to ensure access by the Society's stakeholders.



No further action required.

GOVERNING STRUCTURE AND DELEGATION

Primary role and responsibilities of the Board

PRINCIPLE 6

The Board should serve as the focal point and custodian of corporate governance in the Society.

Application and explanation

The Board is ultimately responsible for setting the Society's strategic direction, approving policy and other governance documents to give effect to the Society's strategic direction, overseeing and monitoring the implementation and execution thereof and ensuring accountability for organisational performance on an ongoing basis.

The Board is satisfied that its role, responsibilities, membership requirements and procedural conduct are appropriately documented in the Society Rules, Board Charter, the Trustee and Principal Officer Code of Conduct, the Statement of Corporate Governance and the Conflict of Interest Policy and that it has fulfilled its primary role and responsibility in relation to governance in accordance with these documents. The Board Charter authorises the Board and its Board Committees to seek expert advice and guidance from external service providers on any Society matters they lack sufficient expertise on.

Even though the Board does delegate certain specific authorities to Society Management and the various Board Committees, extensive feedback is provided to the Board, usually on a quarterly basis or as and when required, by the Principal Officer and / or Chairpersons of the Board Committees on the implementation of the Society's strategies, projects, and operational and governance related matters. Minutes of the meetings of Board Committees are made available to the Board. Trustees who are not members of a particular Board Committee are entitled to attend any meeting of that Board Committee. The number Board and Board Committee meetings and attendance thereof of Board and Board Committee meetings are disclosed in the AFS.

The Board has unrestricted access to all Society information, records, documents and property, excluding personal information of members and beneficiaries (unless the necessary consent has been received). A schedule of all Board and Board Committee meetings and events are agreed to annually and a record of attendance is tabled quarterly at the Board.

The Board reviews all its governance documents, including the Terms of Reference of Board Committees, on a regular basis. Any non-compliance is dealt with in terms of the Society Rules and disciplinary code. Where applicable and appropriate, the governance documents and Terms of Reference of the Board Committees have been updated with the recommended King IV principles, practices, philosophies and governance outcomes.



The Board Charter, Trustee and Principal Officer Code of Conduct, Statement of Corporate Governance, Conflict of Interest Policy and Terms of Reference of Board Committees are available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is satisfied, as evidenced by the Society's various governance documents and Terms of Reference of the Board Committees, that the Board is the custodian of corporate governance in the Society. Disclosure in this regard in the AFS and other reports is deemed appropriate.



No further action required.

Composition of the Board

PRINCIPLE 7

The Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

Application and explanation

The Board is constituted in terms of the Society Rules and consists of four employer-appointed Trustees and four member-elected Trustees. The election procedure for member-elected Trustees is prescribed by the Society Rules. The term of office of all Trustees is five years.

Even though the Board's ability to influence its composition is limited, the Society Rules and Board Charter allows the Board to obtain expert advice on any Society matters it may lack sufficient expertise on. The Board will, when necessary and where the Terms of Reference makes provision for this, appoint non-Trustee members with the relevant skills, knowledge and experience to serve on certain Board Committees.

New Board and Board Committee members undergo an induction process and on-going formal training is provided, as appropriate. Board and Board Committee members are encouraged to undertake continuous development, training and education throughout their term of office. Trustees are required to undergo CMS training and other accredited courses to assist them in getting a better understanding of their roles and functions. Trustees have access to the minutes of all Board and Board Committee meetings, other Society governance related documentation and background information via a secure Trustee-dedicated website.

The current Trustees collectively have sufficient experience and understanding of the fields of administration, investment, actuarial, accounting, legal, project management, human resources and social matters to enable them to perform their duties objectively and effectively. As mentioned above, the Board makes use of external expertise on specific matters outside the collective knowledge, skills and experience of the Board when required.

The Society has requested the Employer to use its powers of appointment whenever a vacancy occurs among the employer-appointed Trustees to assist in ensuring that the Board has members with the appropriate mix of knowledge, skills, experience and diversity needed. Similarly, when the process of nominating and electing member-elected Trustees commences, members are made aware of the nature of the duties of Trustees, the required knowledge, skills and experience and the minimum competencies specified in the Society Rules and prevailing legislation.

In addition, given the current practice of the Employer appointing either current active employees or pensioners as its four employer-appointed Trustees, and the prevailing Society Rules with respect to the four member-elected Trustees, the Board recognises that none of the eight Board members can be regarded as being truly independent of the Society. All Board members are regarded as being non-executive in nature. Accordingly, with regard to the matter of independence of Board members, the Board regularly assesses whether its members exercise objective judgement (see Principle 9 - Evaluations of the performance of the Board on page 10), and that (through the Conflicts of Interest Policy) there is no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third-party, is likely to influence unduly or cause bias in decision-making by the Board. The same assessment is made on the appointment by the Board of Board Committee Chairpersons (see Principle 8 below).



The Society Rules and applicable Rulings and the details, qualifications and experience of individual Board members are available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is satisfied that the current composition of the Board and the various Board Committees reflects the appropriate mix of knowledge, skills, experience and diversity to enable the Board to discharge its governance role and responsibilities objectively and effectively. The Board is also satisfied that the Trustees act (and are seen to be acting) with independence and that they exercise objective judgement, regardless of who elected or appointed them. Disclosure in this regard in the AFS and other reports is deemed appropriate.

In view of the above, in particular the current composition of the Board and Board Committees, the Board constitution, the size of the Society and the Society's current governance structures, the Board is satisfied that the appointment of independent professional trustees to the Board is not necessary. As a result, the associated practices will not be applied by the Society.



With regard to future appointments and/or elections of Trustees the Society will continue (as was done during the most recent Trustee elections and appointments) to:

- ✦ *engage with the Employer to ensure that when the employer appoints new Trustees it takes account of the appropriate mix of knowledge, skills, experience and diversity needed; and*
- ✦ *promote member awareness of the requirements and the minimum competence criteria as specified in the Society Rules and prevailing legislation when nominations are called for.*

Committees of the Board

PRINCIPLE 8

The Board should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with the balance of power and the effective discharge of its duties.

Application and explanation

The Board has established a number of Board Committees, which assist the Board in discharging its responsibilities. The Committees are formally mandated by the Board by means of written Terms of Reference as to their membership, authority and duties. The Chairperson of each Board Committee, where appropriate, reports to the Board at its regular scheduled meetings.

The primary objectives of the various Board Committees are as follows:

- ✦ **Audit and Risk Board Committee:** To provide assurance that good corporate governance practices are implemented, that the inherent risks associated with the Society are adequately identified and addressed, and to provide assurance regarding the Society's accounting policies, systems of internal control and financial reporting practices;

- ✦ **Investment Board Committee:** To oversee the investment of the Society's assets in terms of the strategies approved by the Board in consultation with the Society's appointed investment consultants and other advisors, as deemed appropriate, with the intention of meeting the investment objectives of the various stakeholders as provided for in the IPS;
- ✦ **Communication and Education Board Committee:** To oversee communication to members and the education of Trustees;
- ✦ **Benefit Review Board Committee:** To annually review and recommend medical benefits to be provided to beneficiaries and to recommend the monthly contributions payable by the eligible beneficiaries, with reference to the agreed strategy and the Society Medical Risk Management Policy for guidance, to determine the contribution and benefit increases for the ensuing benefit year. The process followed to arrive at recommendations in this regard includes a review of the trends in the costs of benefits paid for the current and previous years against contributions received, the Society's funding levels, its operating costs, its operational and overall strategy and related industry developments; and
- ✦ **Remuneration Board Committee:** To determine the conditions of employment and remuneration for all employees of the Society, as well as the remuneration of Trustees and Board Committee members, where relevant.

The composition of each Board Committee, the number of Board Committee meetings and attendance thereat, as well as a statement by or with regard to each Board Committee that it or the Board is satisfied that it has fulfilled (or will be able to fulfil) its responsibility in terms of its Terms of Reference, are disclosed in the AFS.

The tenure of the external auditors and the engagement partner is also disclosed in the AFS. Any significant change in the management of the external auditors that impacts on the Society will also be disclosed in the AFS.



The Terms of Reference of the various Board Committees and the qualifications and experience of the individual Board Committee members are available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is satisfied that its current arrangements for delegation promotes independent and objective judgement, assists with the balance of power and the effective discharge of its duties. Given how the Board is constituted, the Board has opted not to always apply the recommended practices whereby all the members (including the Chairperson who may not be the Chairperson of the Board) of the Remuneration Board Committee must be independent. In terms of the Act, the Chairperson of the Audit and Risk Board Committee is independent of the Board, and the Society further complies with the requirements of the Act in terms of the composition of trustee and non-trustee members for this committee. The Board is satisfied that the members of the Audit and Risk Board Committee collectively have sufficient and relevant financial and medical aid industry understanding and experience to enable them to carry out their duties and responsibilities, and that they act with independence of mind.

Disclosure regarding the above in the AFS and other reports is deemed appropriate.

The Board is of the opinion that the recommended practices relating to the establishment of dedicated Board Committees for the nomination, succession planning and performance evaluation of Trustees are not applicable to the Society. The establishment of a Social and Ethics Board Committee is a statutory requirement for companies only.



No further action required.

Evaluations of the performance of the Board

PRINCIPLE 9

The Board should ensure that the evaluation of its own performance and that of its committees, its Chairperson and its individual members, support continued improvement in its performance and effectiveness.

Application and explanation

Each Trustee on an annual basis is required to complete a formal online self-appraisal assessment, which broadly covers the following:

- ✦ The performance of the Board, the Chairperson of the Board, the Principal Officer and the Board Committees;
- ✦ Individual Trustee performance and the exercise of objective judgement; and
- ✦ The performance of the internal and external auditors.

In addition, each Board Committee member is required to complete a formal online self-appraisal assessment in relation to the Committee's specific Terms of Reference.

The results of the individual assessments are collated and submitted to the Board for consideration. The most recent assessments did not indicate any material issues that required specific intervention from the Board, other than those (such as Trustee training allowed for in the Society's Trustee Education Policy) already provided for in terms of the Board and Board Committee's annual diary.



The Trustees' and Principal Officer's Code of Conduct and the Terms of Reference of the Board Committees that deal with performance evaluations are available on the Society's website – www.dpbs.co.za.

Status of application and disclosure: The Board is satisfied that the formal self-appraisal assessment process supports the continuous improvement of its performance and effectiveness, collectively and individually.



Although the Board is satisfied with the results of the self-appraisal assessments, the Board has undertaken to conduct a detailed review of the structure and content of the Board and Board Committees agenda packs, with the ultimate goal of deriving optimum advantage from all resources and improving efficiencies.

Appointment and delegation to management

PRINCIPLE 10

The Board should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.

Application and explanation

The Principal Officer is appointed by the Board in terms of the Society Rules and his responsibilities and authorities are clearly defined in the Rules, the Board Charter, the Trustee and Principal Officer Code of Conduct and the Statement of Corporate Governance, as well as in the Society's other governance and policy documents.

The Principal Officer is responsible for the day-to-day executive management of the Society in line with the policies and strategic objectives set by the Board and must ensure that decisions taken by the Board are properly recorded and implemented. The Principal Officer reports to the Board on the performance of the Society and other material matters at regularly scheduled Board meetings or between meetings as and when required. The performance of the Principal Officer is evaluated annually against Key Performance Indicators (KPIs) agreed with the Chairperson of the Board.

The Principal Officer, other Society employees and representatives of external service providers, as deemed appropriate, are invited to attend and contribute at meetings of the Board and Board Committees in terms of the Board Charter and the Terms of Reference of the various Board Committees but are not members of the Board or Board Committees and have no voting rights.

The Secretary of the Board and Secretaries of the various Board Committees are appointed in terms of the Board Charter and the Terms of Reference of the various Board Committees, respectively, but are not considered members and have no voting rights.

The Society has a Signing Authorities Policy in place that clarifies the levels of authority delegated to the Principal Officer, members of the Board and the various Board Committees and other Society employees. Delegation of authority is also dealt with in the Society Rules, the Rulings, the Terms of Reference of the various Board Committees and the other Society governance and policy documents.

The Board is authorised to seek expert advice and guidance from external service providers on any Society matters the Trustees may lack sufficient expertise on. The same applies to corporate governance services, which are currently performed by members of the Society's executive team.



Copies of the relevant documents referred to above are available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is satisfied that the authorities and delegations that are in place to contribute to role clarity and the effective exercise of authority and responsibilities as contemplated in Principle 10. The Board is also satisfied that the Society's current arrangement, whereby the Society's corporate governance services are performed by members of the Society's executive team, in consultation with external service providers, is effective and appropriate given the size of the Society's administration.

Due to the small size of the Society and its staff complement as well as recent experience, the Board has opted not to apply the associated practices dealing with succession of the Principal Officer and other senior members of staff.

The Board has opted not to make some of the specific disclosures recommended in the associated practices in relation to the Principal Officer. The Board is of the opinion that the current disclosure in the AFS in relation to the Principal Officer is sufficient. Other disclosures, as recommended in the associated practices of Principle 10, in the AFS and other reports are deemed appropriate.



No further action required.

GOVERNANCE FUNCTIONAL AREAS

Risk governance

PRINCIPLE 11

The Board should govern risk in a way that supports the Society in setting and achieving its strategic objectives.

Application and explanation

The Board is ultimately responsible for the management of the various risks facing the Society. Whilst the responsibility for risk management is not abrogated in favour of the members of the Audit and Risk Board Committee, the Committee provides assurance to the Board in this regard. Each Board Committee is responsible for the identification and recording of those risks associated with its specific activities. Society Management is responsible for the identification of operational risks.

The Society's Risk Management Policy, which is reviewed annually by the Board, establishes an appropriate system and process for capturing and managing risk through five key stages: identification, assessment, monitoring, mitigation and reporting. Society Management is entrusted with the responsibility of ensuring that the risk management framework is embedded at all levels and overseen, independently and objectively, at an appropriate level. The Audit and Risk Board Committee, through the internal auditors, continuously reviews the adequacy and effectiveness of the Society's risk management framework and report to the Board on the status thereof. The Society's Risk Register, which incorporates the risk registers of the various Board Committees, is reviewed annually by the Audit and Risk Board Committee and is approved by the Board. The Board Charter and Terms of Reference of the various Board Committees deal specifically with this matter.



The summarised version of the Society's Risk Register, Risk Management Policy and the Terms of Reference of the various Board Committees are available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is satisfied that the Society's risk management framework is sufficient to achieve the objective contemplated in Principle 11. Disclosure in this regard in the AFS and other reports is deemed appropriate.



No further action required.

Technology and information governance

PRINCIPLE 12

The Board should govern technology and information in a way that supports the Society setting and achieving its strategic objectives.

Application and explanation

Given the relatively small size of the Society's administration and in order to leverage best practice, the Society makes use of the De Beers Information Technology (IT) infrastructure, systems and governance framework, and has accordingly adopted the associated De Beers IT Policies, such as the Anti-Virus and Malware, Logical Access Control, Information Security, Remote Access, Network and Wireless Security and Vulnerability and Patch Management Policies.

The Society has implemented a structured process to ensure compliance with the requirements of the Protection of Personal Information Act, and as a result has implemented the following policies:

- ✦ Information Management Policy;
- ✦ Privacy Policy;
- ✦ Incident Response Policy; and
- ✦ Clean Desk Policy.

The Society performs, through external assurance providers, triennial Information Technology General Control audits and regular application security vulnerability tests, focusing on matters such as regular software updates, access to systems and data, IT operations and change management controls.

IT disaster recovery plans are in place and regularly tested, regular backups of systems and data are done and stored off-site, and the server that hosts the Society's administration system is regularly replicated to an off-site disaster recovery server.



Copies of the policy documents referred to above are available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is satisfied that both technology and information are managed in a way that supports the Society in setting and achieving its strategic objectives on a continuous and sustainable basis as contemplated in Principle 12. Disclosure in this regard in the AFS and other reports is deemed appropriate.



No further action required.

Compliance governance

PRINCIPLE 13

The Board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the Society in being ethical and a good corporate citizen.

Application and explanation

The Audit and Risk Board Committee has an oversight responsibility for ensuring compliance with the applicable laws, circulars issued by the CMS, the Society Rules and the various governance and policy documents. The Committee, directly or through other Board Committees, advises and assists the Board on matters relevant to compliance and regularly, through interaction with external assurance providers in terms of the Society's combined assurance model, provides feedback to the Board on the effectiveness of the Society's systems and processes for monitoring compliance.

The Board's responsibility for ensuring compliance is clearly defined in the Society's governance and policy documents, such as the Board Charter, the Statement of Corporate Governance, the Trustee and Principal Officer Code of Conduct and in particular the IPS. Where the responsibility for monitoring compliance has been outsourced to external service providers, it is recorded in the relevant agreements and regularly monitored.

The induction process for new Board and Board Committee members, and the on-going formal training provided by the Society specifically addresses the Board's responsibility for ensuring and monitoring compliance. All instances of non-compliance are reported in the AFS and, where relevant, to the CMS.



Copies of the relevant documents referred to above are available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is satisfied that the Society governs compliance, as contemplated in Principle 13, in such a manner that it supports the Society in being ethical and a good corporate citizen. Disclosure in this regard in the AFS and other reports is deemed appropriate.

The disclosure requirement in terms of inspections done by environmental regulators is not relevant to the Society.



No further action required.

Remuneration Governance

PRINCIPLE 14

The Board should ensure that the Society remunerates fairly, responsibly and transparently to promote the achievement of its strategic objectives and positive outcomes in the short, medium and long term.

Application and explanation

The Board, through the Remuneration Board Committee, ensures that the Society remunerates its staff and, where relevant, Trustees and Board Committee members fairly and responsibly, taking account of the Society's overall strategy and the employment market it operates within.

The remuneration of Trustees and Board Committee members, where relevant, is defined in the Society's Trustee Remuneration Policy.

Annual staff salary increase and discretionary performance bonus directives are issued by the Board on the recommendation of the Committee. Staff remuneration levels are benchmarked against market remuneration levels and discretionary performance bonuses are based on agreed KPI's. In addition, the Society has retention agreements in place with key members of staff.



The Terms of Reference of the Remuneration Board Committee and the Trustee Remuneration Policy is available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is comfortable that the Society's remuneration and conditions of employment are fair, responsible and transparent in order to:

- ★ attract, motivate, reward and retain staff;
- ★ promote the achievement of the Society's strategic objectives; and
- ★ promote positive outcomes for the Society's stakeholders.

The associated practices that deal specifically with the issuing of a remuneration report have not been applied by the Society. There is no legislative requirement for the Society to issue a remuneration report. The Principal Officer's and Trustee remuneration is disclosed in the AFS and CMS.



The Society is currently undertaking a benchmarking exercise to assess whether its Trustee Remuneration is fair and responsible in the context of the broader medical scheme industry.

Assurance

PRINCIPLE 15

The Board should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the Society's external reports.

Application and explanation

The Audit and Risk Board Committee, amongst other things, is responsible for overseeing the effectiveness of the Society's assurance services and functions, reviewing and confirming the independence of the internal and external auditors and ensuring that the design, implementation and effectiveness of the Society's processes, systems and internal control environment are regularly reviewed in accordance with a combined assurance model.

The Society's combined assurance model has been designed to cover the Society's significant risk areas and material matters through a combination of external assurance providers, such as the Society Actuary, investment consultants, internal auditors and external auditors.

An Internal Audit Charter is in place and outlines the responsibilities of the internal auditors.



The Terms of Reference of the Audit and Risk Board Committee and the Internal Audit Charter are available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is satisfied that the Society's assurance services and functions enable an effective control environment and support the integrity of information produced. Disclosure in this regard in the AFS and other reports is deemed appropriate.

The Society does not have a Chief Audit Executive, therefore the associated practices that deal specifically with this position are not relevant to the Society.



No further action required.

STAKEHOLDER RELATIONSHIPS

Stakeholders

PRINCIPLE 16

In the execution of its governance role and responsibilities, the Board should adopt a stakeholder inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the Society over time.

Application and explanation

The Board, directly or through its Board Committees and Society Management, takes responsibility for providing direction and overseeing all matters affecting the needs, interests and expectations of its stakeholders.

Guidelines on stakeholder relationships are contained in the Society Rules, governance documents such as the Board Charter, and policy documents such as the IPS.

The Communication and Education Board Committee oversees the Society's Communication Policy and Strategy which is specifically designed to manage stakeholder expectations and adheres to the requirements of the CMS. The Society maintains an informative website and issues regular Newsletters, as well as updated Member Guides to ensure members experience the TCF fairness outcome of being kept appropriately informed.

The Society has a complaint register in place and all complaints, as well as matters referred to the CMS and views expressed by stakeholders, are reported in full to the Board at its quarterly meetings or as and when required.



Copies of the relevant documents referred to above are available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is satisfied that the existing stakeholder relationships contribute to the Society's sustainability and are balanced appropriately in the best interest of the Society. Disclosure in this regard in the AFS and other reports is deemed appropriate.

The Society is not in a position to apply all the associated practices of Principle 16, specifically those relating to holding companies, as these are not applicable to the Society.



No further action required.

Responsibilities of institutional investors

PRINCIPLE 17

The Board should ensure that responsible investment is practised by the Society to promote the good governance and the creation of value by the companies in which it invests.

Application and explanation

The Board acknowledges that where a responsible investment approach is incorporated in investment strategies, processes and activities, in addition to financial considerations, it is expected to contribute towards decreasing investment risk and improving risk adjusted returns. This approach also includes the active ownership responsibilities of engagement, proxy voting and reporting.

In view of the above, the Board has formally delegated all active ownership responsibilities to the respective asset managers and mandated the Investment Board Committee to:

- ✦ monitor and consider, at their quarterly meetings, the manner in which the asset managers are voting on behalf of the Society at shareholder meetings of the companies in which the Society's assets are invested;
- ✦ interrogate the asset managers at the annual due diligence visits and investment days on the discharge of their active ownership responsibilities;
- ✦ investigate individual cases of governance failures or significant corporate events on a case-by-case basis; and
- ✦ deal with specific enquiries from stakeholders in this regard on a case-by-case basis.

All asset managers have formal investment management agreements and mandates in place, which incorporate the principles of responsible investing and are reviewed regularly.

The Board further recognises that the Society as an institutional investor plays a role in ensuring that corporate South Africa applies the principles and associated practices of King IV, assumes responsibility for being a responsible corporate citizen and takes account of the development of the South African economy and the transformation of the broader society.



The Society's IPS is available on the Society's website – www.dbbs.co.za.

Status of application and disclosure: The Board is satisfied that the appointed asset managers give due consideration to the principles of responsible investing in their investment decisions. Disclosure in this regard in the AFS and other reports is deemed appropriate.



No further action required.